

Government Briefing Paper 2023

Provided by Cooperative Business New Zealand

INTRODUCTION

Cooperative Business NZ, New Zealand's apex body representing co-operative and mutual businesses, is looking forward to working alongside the incoming Government on issues of value to our business community, for the broader economy and for New Zealand.

This briefing paper outlines:

- How the cooperative and mutual business community may assist New Zealand achieve greater levels of productivity, employment, education and delivery on the UN's Sustainability Goals.
- Opportunities, where the cooperative business model could be used to solve some of our biggest challenges, for example housing, based on international experience.
- Potential regulatory simplification measures that would support New Zealand cooperative's continuing success.
- Opportunities for the incoming Government to collaborate with our business community.

As a nation, New Zealand relies significantly upon our co-operative and mutual business community. Generating approximately 18% of GDP by revenue and employing around 300,000 staff (15% of our paid workforce), they play a vital role within our economy. They are major exporters, positive enablers within our regional communities, and they are New Zealand-owned enterprises that capture value along with reinvesting their profits back in our economy.

Appended to this paper are details about Cooperative Business NZ's role, our members, and the legislation relevant to these organisations.

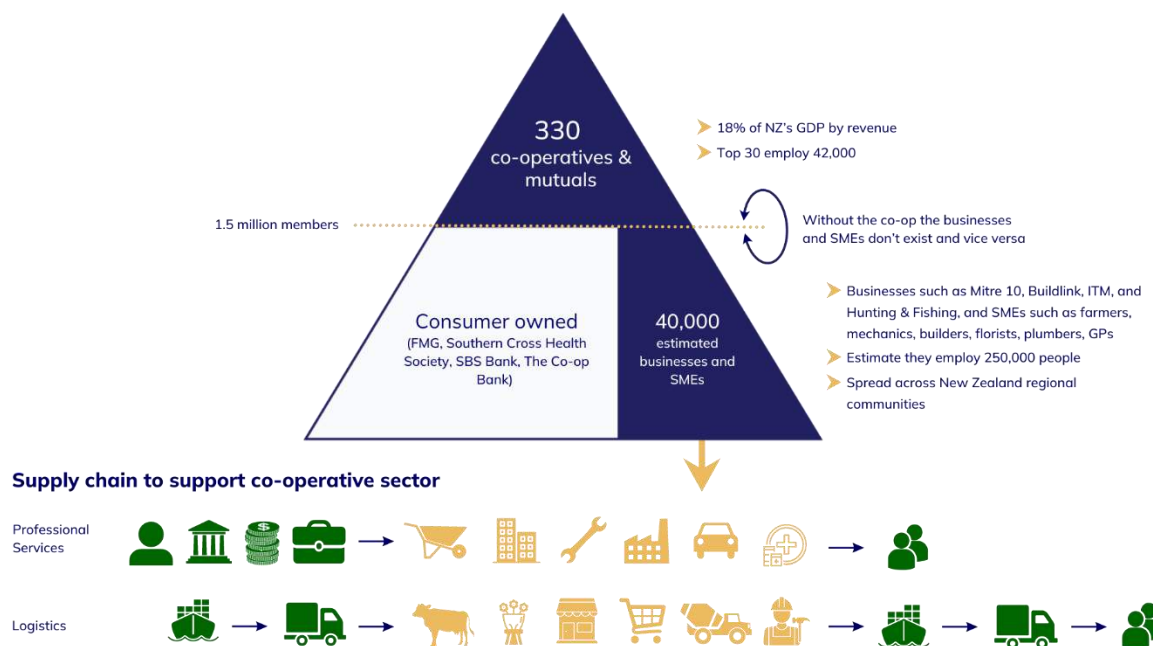
We encourage you to share this briefing paper with your colleagues and officials.

BACKGROUND

Why are co-operatives critical to New Zealand?

New Zealand is one of the most co-operative economies in the world, and our co-operatives and mutuals make a significant contribution to New Zealand's economy and society.

- New Zealand has ½ million enterprises, with approximately 330 of them being cooperatives, mutuals, societies and credit unions, ranging across almost every sector.
- Our top 30 co-operatives alone contribute 13% of GDP by revenue (NZD\$42 billion annually) and directly employ more than 41,000 New Zealanders. They are some of the largest and most successful companies in New Zealand.
- It is estimated that the total GDP by revenue generated by all co-operative and mutual businesses is 18% of total New Zealand GDP.
- There are 1.5 million members of the top 30 co-operatives by revenue. Of these members, approximately 40,000 are SMEs and businesses in their own right, employing around 300,000 staff (15% of New Zealand's paid employees). Without the co-operative, many of these businesses would not be sustainable.
- The supply chains and professional services that support this business community are intrinsic to our economy.
- 75% of New Zealand's co-operatives sit directly or provide support to our primary sector with a specific focus on the agricultural/horticultural industries. That being said, the model continues to be successfully applied across multiple sectors and is fundamental to the way we do business and deliver goods and services.
- Throughout the COVID-19 pandemic, many of these businesses were identified as essential services.



OPPORTUNITIES OFFERED BY THE MODEL

Looking to the future, the co-operative business model provides multiple opportunities for New Zealand:

- The operating model/principles will assist New Zealand deliver against our commitment to the UN Sustainable Development Goals (SDG).
- The adaptability of the model enables it to be applied to multiple business structures and industries, for example housing, renewable energy, health.
- It supports the establishment of start-ups and highly sustainable businesses that work more collaboratively.
- Supports the change in consumer buying behaviour; New Zealanders are looking to support local, reduce waste, and ensure profits are retained in New Zealand to create a more circular economy.
- The principles these businesses operate under provide an umbrella to support being 'Good Corporate Citizens'.
- Through scale and joint purpose, they create opportunities for improving the lives and livelihoods of New Zealanders.

CHALLENGES FACING NEW ZEALAND COOPERATIVE BUSINESSES

We believe there are excellent opportunities for the incoming Government to work with the co-operative business community to deliver innovative solutions as we face into some significant challenges. By having the right settings, solutions can be delivered at the speed necessary to meet domestic and global targets.

However, our member owned business community have identified the following issues as the biggest challenges hindering New Zealand's co-operative businesses from participating fully in these opportunities:

- Current regulatory environment, and associated compliance costs stifling opportunities;
- Limited understanding of New Zealand's co-operatives and support for their continued success;
- Assistance to establish co-operative and mutual businesses;
- Overly restrictive lending rules.

Through the alignment of Government policy, we believe that these issues can be resolved to ensure New Zealand's co-operative business community can sustain success for generations to come - as an employer and as major contributors to our economy and our communities.

Ministerial portfolios relevant to engage with the business community

There are a number of key ministerial portfolios with significant opportunities to work with co-operative businesses in realising some of New Zealand's most exciting opportunities. These include:

- Agriculture
- Economic Development
- Small Business
- Commerce & Consumer Affairs
- Housing
- Health
- Food Safety
- Social Development & Employment
- Civil Defence
- Environment

ISSUES SEEKING GOVERNMENT ENGAGEMENT

ISSUE 1: Creating a 'Fit for Purpose' regulatory model

The regulatory environment currently facing co-operatives is overcomplicated, expensive and stifling growth. With the increasing number of banking regulations (as outlined in Issue 4), and the fast pace of regulatory change, it is demanding for co-operatives to keep up with complicated and at times, unclear legislation and expensive to comply. The unintended consequences may see a reduction of competitors within a range of sectors.

For not-for-profits, the cost of regulation and compliance can be unaffordable, and there are too few tools in place to assist co-operatives in complying. These administrative costs are often placed on small and medium-sized businesses. The Conduct of Financial Institutions (CoFI) regulations undermine the operations of smaller and non-institutional banks, and the way regulation is applied, prevents the establishment of new infrastructure and housing co-operatives (as outlined in Issue 4). These examples show how the regulatory environment is limiting or damaging for our co-operatives' ability to support an uplift in New Zealand's economic conditions.

Cooperative Business NZ would encourage a model that has clear policy objectives, effective design and lower compliance costs:

- **Regulation needs to be appropriately targeted**, with regulatory design taking into consideration the unique features/needs of co-operative business sector.
- A **risk-based approach** is necessary when implementing new regulation legislation.
- The Government should **engage directly with the co-operative business community** to collaboratively develop regulation which is fit-for-purpose.
- As a priority, **New Zealand property law, particularly as expressed in the RMA Act and its successor legislation, needs review** to enable the establishment of co-operative housing; an initiative which would benefit many communities.
- Retain the current **Co-operative Companies Act 1996**, and expand to include Co-operative Housing.

As part of the above, to ensure parity of treatment versus other business constructs, consideration needs to be given to the range of New Zealand legislation under which co-operatives and mutual businesses are registered (depending upon their industry and organisation structure). Refer to Appendix C.

ISSUE 2: Greater understanding of co-operatives to support their continued success

It is vital for those in Government (alongside established and aspiring business leaders) to have a thorough understanding of the co-operative model. The contribution it makes to New Zealand GDP and societal wellbeing is significant. Without this understanding, inappropriate policies and business/regulatory decisions that are only applicable to the corporate model may continue to be put in place.

New Zealand's co-operative community is strategically aligned to support the government with infrastructure that is no longer fit-for-purpose, housing, the cost-of-living crisis, and responding to climate change. In order to do so, it is important for the model to be well understood so government can maximise the potential of co-operatives in solving these challenges.

Steps to developing better understanding of co-operative businesses in New Zealand could include:

- An **inquiry into the co-operative sector** assessing the how New Zealand might better leverage this business community to support New Zealand’s economy and communities. A similar inquiry was successfully undertaken in Australia.¹
- Include **specific responsibility for Co-operative Businesses into a ministerial portfolio**, such as the Minister of Economic Development. It is common internationally in countries with significant reliance upon these businesses to have a Minister for Co-operatives, thereby allowing their countries’ co-operatives to have a champion in government representing their interests.
- **Implement the International Labour Organisation (ILO) No. 193² recommendations.** The ILO recognises that co-operatives provide fundamental services and infrastructure that societies need to thrive, along with generating wealth. Cooperative Business NZ would like partner with the incoming government to enhance decision makers and policy officials understanding of these recommendations. This will assist New Zealand in delivering on ESG and SDG requirements, improving our international trade opportunities.
- **Upskilling incoming Ministers/Ministries** on the co-operative model. Cooperative Business NZ could offer public servants and incoming Members of Parliament briefings about the co-operative business community to support a ‘fit for purpose’ regulatory environment. This would pave the way for legislation that works for both corporates and co-operatives.
- **Incorporate education at tertiary level** on the co-operative model to ensure professional service providers, politicians, and future leaders have the appropriate knowledge when entering the workforce. Cooperative Business NZ has established a task force headed up by Professor Nicola Shadbolt to engage with tertiary institutions across New Zealand. We would welcome collaborating with government on this initiative to fast track delivery. New Zealand has the potential to be a world class leader in co-operative education.

ISSUE 3: Assistance to establish co-operatives and mutual businesses

When it comes to setting up or investing in a co-operative or mutual business, there is little assistance available. To enable the success of these new businesses, a range of policies and support could assist in achieving business goals and increasing their contribution to New Zealand:

- Make the **Small Co-operative Exemption Scheme³ a permanent scheme.** The establishment of this scheme has enabled new and small co-operative businesses to increase New Zealand’s productivity. A permanent scheme would ensure the sector continues to grow, especially as the lighter regulatory compliance pathway that it provides helps reduce the costs of establishment and complexity of administrative requirements which are already significant for these small businesses. The recent extension to this scheme also broadened the parameters, allowing bigger co-operatives to leverage it. This will allow the wider co-operative business community to grow and operate successfully. The scheme is currently set to expire in 2027.
- Enable **MBIE to offer specialist support / grants / mentorship** for co-operative start-ups, co-funding professional service fees in the same way it does for other business models. This would allow these new co-operatives to channel their capital to focus on business goals and the full establishment of operations to deliver faster positive impact. Cooperative Business NZ has initiated work with Business Mentors NZ on this issue. Greater support from MBIE would be an important boost.
- **Seed the establishment of Public Private Partnerships (PPP’s).** Although most of New Zealand’s co-operatives have no external investment, they legally can have up to 40% external investment from non-transacting members. However, investors need to be philosophically aligned with a long-term view of benefits for the

¹ Australian Parliament House. (17 March 2016). *Cooperative, mutual and member-owned firms*. Retrieved July 2023, from https://www.aph.gov.au/parliamentary_business/committees/senate/economics/cooperatives/report

² International Labour Organization. (June 2022). *R193 - Promotion of Cooperatives Recommendation, 2002 (No. 193)*. Retrieved July 2023, from

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_ILO_CODE:R193

³ FMA. (17 December 2022). *Financial Markets Conduct (Small Co-operatives) Exemption Notice 2022*. Retrieved July 2023, from <https://www.fma.govt.nz/business/legislation/exemptions/financial-markets-conduct-act-exemptions/small-co-operatives-2022/>

members rather than solely focussed on extracting quick profit. However, partnerships with Government through the establishment of PPP's with co-operatives could provide an excellent fit. Opportunities include:

- **Establishment of PPP / co-operative businesses** to support social and commercial outcomes. This could include housing, infrastructure, commercial enterprises within rural or lower socio-economic communities.
- **Creating a seed fund** to support the establishment of PPP's to assist community businesses being fast tracked to solve local and national challenges.
- **Offer business mentors to support start-ups** with appropriate knowledge. Similar to the seed fund, this would be particularly beneficial to lower socio-economic groups. Business Mentors NZ is a Corporate Associate Member of Cooperative Business NZ and has begun work in canvassing their mentors to discover how many have sufficient knowledge of the co-operative business model. Further expansion of business mentorship would be hugely beneficial for the start-up co-operative community.
- **Small co-operatives would benefit from these settings.** It would not only enable them to reach their business goals and their own establishment faster, but also support New Zealand's communities to solve local and nationwide challenges sooner.

ISSUE 4: Overly restrictive lending rules by institutions. This is particularly relevant to the establishment of Housing Co-operatives

Reform to New Zealand's present lending rules and institutions is important to ensure the ongoing success of co-operative businesses. Currently rules constrict the advancement of the co-operative business community. Lending providers often treat co-operative businesses very conservatively, including because the balance sheets of a co-operative are different to the corporate sector due to profit distribution and because lenders who are completing such evaluations often have little knowledge of the model. We believe this is often short-sighted as due to the subordination clause, co-operatives in general are some of the most highly rated investments by Standard and Poor's.

A particular focus of concern on this issue is with the establishment of co-operative housing. Cooperative Business NZ sees a significant opportunity in the potential for co-operative housing to alleviate our housing crisis and promote home ownership. The international evidence is clear that co-operative housing would empower first-home buyers, retirees, Māori and Pacifica communities and low socio-economic groups, driving positive outcomes for communities that are currently locked out of sustainable, long-term housing.

Co-operative housing has been highly successful internationally, particularly in Europe and the United Kingdom where there have been no co-operative housing failures in the past 40 years. However, it is currently impossible to establish them in New Zealand due to the rules in place.

Overly restrictive lending rules impacts more than just co-operative housing; however, this particular example provides a clear illustration of how these rules are acting as a roadblock to the success of co-operatives and limiting their potential contribution to New Zealand's success. The Government can help solve this situation through action in the following areas:

- **New requirements set by the Reserve Bank** supporting investment into co-operative and mutual businesses.
- **Introduce a Resource Management Framework** that facilitates progressive economic development, a lower cost to build and improved housing affordability. Consider reforms to the current property law and the Resource Management Act 1991 (RMA) to allow for the establishment of cooperative housing.
- **Revise the risk profile of these businesses** based on Standard and Poor's assessments.

Action on these issues would see small, medium and large co-operatives all benefitting, alongside the general New Zealand public and wider communities that co-operatives service.

APPENDICES

A. COOPERATIVE BUSINESS NEW ZEALAND

Introduction to Cooperative Business NZ

Cooperative Business NZ was established in the early 1980s as the representative body for New Zealand's member owned and purpose led businesses. Our members organisations sit across multiple sectors, across several business constructs, and operate at varying scales. They are some of our most enduring and successful organisations, generating approximately 18% of New Zealand's GDP by revenue.

A table of our members and their industries are set out in Appendices B.

What are co-operative businesses and how do they operate?

A co-operative is a member-owned and controlled business from which benefits are derived and distributed equitably on the basis of use. Co-operatives operate similarly to privately owned businesses, but they do have several unique characteristics.

These include:

- Owned and democratically controlled by their members rather than outside investors.
- Members are the individuals or businesses which actively use the co-operative's services, buy or supply them with goods / services or are their employees (in some cases, a hybrid).
- Co-operative businesses return surplus revenues to their members in proportion to their use of the co-operative.
- Meet their members' needs for the long term.

Internationally, co-operatives and mutuals follow the Rochdale Principles, which puts their values into practice.

1. Voluntary and Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation Amongst Co-operatives
7. Concern for Community

Committed to the focus of 'People, Planet and Profit', co-operatives and mutuals measure their success based on these factors.

They are committed to the development and empowerment of people and communities. The business model is well-suited to finding new ways to sustain growth in an uncertain and rapidly changing environment, and often they put environmental and social impacts at the heart of their business to serve their communities and conserve natural resources.

B. WHO WE REPRESENT: OUR MEMBERS

Of the 330 businesses applying co-operative principles in New Zealand, Cooperative Business NZ has the privilege of working with the majority of major companies applying the business model.

<p>Retail/Wholesale</p> <ul style="list-style-type: none"> Appliance Connexion Blackfern Co-operative BuildLink Group Capricorn Society Ltd Combined Building Supplies Co-op (CBS) Flooring Xtra Licensing Foodfirst Foodstuffs North Island Foodstuffs South Island Hunting & Fishing NZ The Independent Optometry Group Interflora Pacific Unit Limited ITM Mitre 10 New Zealand Limited NZPM Group Limited Paper Plus Group World Travellers 	<p>Agriculture</p> <ul style="list-style-type: none"> Alliance Group Anexa Veterinary Services Balance Agri Nutrients Dairy Goat Co-operative Farmlands Fonterra LIC Origin A Group Ltd Primary Wool Coop Ltd Ravensdown Fertiliser Rodney Coop Lime Co Rural Co Silver Fern Farms The Tatua Cooperative Dairy Company
<p>Horticulture</p> <ul style="list-style-type: none"> Birchwood Packhouse Ltd Boysenberries NZ Ltd EastPack Market Gardeners Ltd Marlborough Grapegrowers Cooperative The NZ Blackcurrant Co-operative Ltd NZ Hops Ltd Seasonal Solutions Walnuts New Zealand Co-operative Ltd 	<p>Financial Services, Insurance and Banking</p> <ul style="list-style-type: none"> The Co-operative Bank First Credit Union Farmers Mutual Group (FMG) Medical Assurance Society (MAS) Plus 4 Insurance Rabobank SBS Bank Share NZ Services Ltd Southern Cross Health Society Wealthpoint
<p>Utilities/Energy</p> <ul style="list-style-type: none"> Ashburton Lyndhust Irrigation (ALIL) Barrhill Chertsey Irrigation EA Networks Irrigation NZ Kerikeri Irrigation Ltd MHV Water 	<p>Other</p> <ul style="list-style-type: none"> Coastal Energy Ion Technologies Loomio Ngāti Ruapani ki Uta ki Tai Co-operative Society Limited NZ Cleaning Cooperative ProCare Rural Couriers Society Truestock Venture Centre

In addition to our Full Members, Cooperative Business NZ supports start-ups. We regularly assist to establish collectively owned businesses across all sectors and business constructs.

To support us, we have a range of Corporate Associate Members with specialist knowledge on the business model to assist with their continuing success. This includes:

Anderson Lloyd | Buddle Findlay | Business Mentors NZ | Centrix: Credit Bureau of New Zealand | Cyclone | Deloitte | Integrity | KPMG | Lifeline Aotearoa | Mayfield Group | Mystery Creek | PwC | Silvereve Communications | Syndex | The Trust Alliance NZ Inc.

C. RELEVANT COMPANY LEGISLATION

The following details New Zealand legislation recognised by the United Nations and the International Co-operative Alliance (ICA) as relevant to this business community:

- Co-operative Companies Act 1996 - registered under Companies Act (1993)
- Building Societies Act (1965)
- Friendly Societies and Credit Unions Act (1982)
- Farmers Mutual Act (2007)
- Industrial and Provident Societies (1908)