Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Economic Development Committee will be held on:

Date:	**Wednesday 11 November 2020**
Time:	**9.30am**
Meeting Room:	**Council Chamber and Audio Visual link**
Venue:	**Municipal Building, Garden Place, Hamilton**

Richard Briggs
Chief Executive

Economic Development Committee
Komiti OOhanga Whakatupu
OPEN AGENDA

Membership

Chairperson *Heamana*	Cr R Hamilton	
Deputy Chairperson *Heamana Tuarua*	Cr E Wilson	
Members	Deputy Mayor G Taylor Cr M Gallagher Cr R Pascoe Cr M van Oosten	Mayor P Southgate Maangai O Te Ua Maangai T P Thompson-Evans
Quorum:	**A majority of members (including vacancies)**	
Meeting Frequency:	**As required – no less than four times a year.**	

Becca Brooke
Governance Manager
Menetia Mana Whakahaere

3 November 2020

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Purpose

The Economic Development Committee is responsible for:

1. Governance of Hamilton's economic agenda and investment development opportunities consistent with Council's vision for the city and to enhance the wellbeing of Hamiltonians.

In addition to the common delegations, the Economic Development Committee is delegated the following Terms of Reference and powers:

Terms of Reference:

1. To drive and enhance Hamilton's economic position by actively promoting Hamilton.
2. To promote investment and business attraction opportunities for Hamilton and the greater Waikato region.
3. To provide advice on strategic initiatives, plans, projects and potential property developments that have a material impact upon the Hamilton economy.
4. To develop, review and monitor the implementation of the Economic Development Agenda.
5. To consider and recommend funding for Business Improvement District(s), Hamilton and Waikato Tourism and Te Waka through the Councils long-term plan process.
6. To monitor the performance and provide guidance on Council's relationship with key stakeholders including, but not limited to Te Waka, Hamilton Waikato Tourism and Hamilton Central Business Association.
7. To monitor the performance of Council's major event venues operation (H3).
8. To review and monitor the implementation of Council's Event Sponsorship Policy.
9. To approve annual Event Sponsorship funding applications and monitor any grants made to external organisations under the terms of the Event Sponsorship Policy.
10. To support and assist with efforts for external partnerships on Council projects that will provide economic development opportunities for Hamilton and the region.
11. To develop and monitor policy related to the appointment and remuneration of directors of CCOs, CCTOs and COs.
12. To provide clear direction to Council's CCOs CCTOs and COs on Council's expectations, including feedback on draft statements of intent.
13. To receive six-monthly reports of Council's CCOs, CCTOs and COs, including on board performance.
14. To undertake any reviews of CCOs and CCTOs and agree CCO/CCTO-proposed changes to their governance arrangements, except where reserved for Council's approval by Council.
15. To develop policy, approve and monitor implementation of plans and strategies in relation to the performance of Council's investments in the Municipal Endowment Fund, the Domain Endowment Fund and strategic property.
16. To recommend to the Council approval of acquisition or sale or lease of properties owned by the Council, or owned by the Municipal Endowment Fund or the Domain Endowment Fund consistent with the Municipal Endowment Fund Investment Policy, for any endowment properties.

The Committee is delegated the following powers to act:

- Approval of event sponsorship applications annually in accordance with the Event Sponsorship Policy.
- Approval of letters of expectation for each CCO, CCTO and CO.
- To provide feedback on draft statements of intent for each CCO, CCTO and CO.

The Committee is delegated the following recommendatory powers:

- Appointments to, and removals from, CCO, CCTO and CO boards
- Approval of proposed major transactions or constitutional adjustments of CCOs, CCTOs and COs.
- Approval or otherwise of any proposal to establish, wind-up or dispose of any holding in, a CCO, CCTO or CO.
- Approval of acquisition or sale or lease of properties owned by the Council, or owned by the Municipal Endowment Fund or the Domain Endowment Fund consistent with the Municipal Endowment Fund Investment Policy, for any endowment properties.
- The Committee may make recommendations to Council.
- The Committee may make recommendations to other Committees.

Recommendatory Oversight of Policies and Bylaws:

- *Appointment and Remuneration of Board Members of COs, CCOs and CCTOs Policy*
- *Event Sponsorship Policy*
- *Freeholding of Council Endowment Land Policy*
- *Municipal Endowment Fund Investment Policy*
  Business Improvement District (BID) Policy

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1 Apologies – *Tono aroha*

2 Confirmation of Agenda – *Whakatau raarangi take*

The Committee to confirm the agenda.

3 Declaration of Interest – *Tauaakii whaipaanga*

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

4 Public Forum – *Aatea koorero*

As per Hamilton City Council’s Standing Orders, a period of up to 30 minutes has been set aside for a public forum. Each speaker during the public forum section of this meeting may speak for five minutes or longer at the discretion of the Chair.

Please note that the public forum is to be confined to those items falling within the terms of the reference of this meeting.

Speakers will be put on a Public Forum speaking list on a first come first served basis in the Council Chamber prior to the start of the Meeting. A member of the Council Governance Team will be available to co-ordinate this. As many speakers as possible will be heard within the allocated time.

If you have any questions regarding Public Forum please contact Governance by telephoning 07 838 6727.

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Council Report

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Tyler Gaukrodger	**Authoriser:**	Becca Brooke
Position:	Governance Advisor	**Position:**	Governance Manager
Report Name:	Confirmation of the Economic Development Committee Open Minutes of 8 September 2020		

Report Status	*Open*

Staff Recommendation - *Tuutohu-aa-kaimahi*

That the Economic Development Committee confirm the Open Minutes of the Economic Development Committee Meeting held on 8 September 2020 as a true and correct record.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Economic Development Committee Open Minutes - 8 September 2020

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Attachment 1

Economic Development Committee
Komiti OOhanga Whakatupu
OPEN MINUTES

Minutes of a meeting of the Economic Development Committee held in Council Chamber, Municipal Building, Garden Place, Hamilton and via audio visual link on Tuesday 8 September 2020 at 9.33am.

PRESENT

Chairperson *Heamana*	Cr R Hamilton
Deputy Chairperson *Heamana Tuarua*	Cr E Wilson
Members	Deputy Mayor G Taylor Cr M Gallagher (via audio-visual link) Cr R Pascoe Cr M van Oosten Mayor P Southgate Maangai O Te Ua (via audio-visual link) Maangai T P Thompson-Evans (via audio-visual link)
In Attendance:	Cr S Thomson (via audio-visual link) Cr M Bunting (via audio-visual link) Cr D Macpherson Cr M Forsyth (via audio-visual link) Sean Murray - General Manager Venues, Tourism and Major Events Jen Baird - General Manager City Growth Mike Bennett - Key Account Manager Julie Sanderson - Group Business Manager
Governance Staff:	Amy Viggers – Governance Team Leader Carmen Fortin, Narelle Waite and Tyler Gaukrodger – Governance Advisors

1. Apologies – *Tono aroha*

Resolved: (Cr Hamilton/Cr Wilson)

That the apologies for partial attendance from Cr Gallagher and Maangai Thompson-Evans are accepted.

2. Confirmation of Agenda – *Whakatau raarangi take*

Resolved: (Cr Hamilton/Cr van Oosten)

That the agenda is confirmed noting the following:

a) Item 10 (Te Waka Six-Monthly Update) will be taken at 10:30am to accommodate external presenters;

b) Item C1 (Appointment of Directors - Waikato Regional Airport Limited) will be taken at 1pm to accommodate external presenters; and

c) Item C2 (Municipal Endowment Fund - Management and Policy Approval) in the public excluded agenda will be moved to the open session of the meeting. The report is attached to these minutes as appendix 1.

3. Declarations of Interest – *Tauaakii whaipaanga*

No members of the Committee declared a Conflict of Interest.

4. Public Forum – *Aatea koorero*

Roger Stratford provided a written submission to Item 6 (Chair's Report). This was circulated to Committee Members prior to the meeting and is attached to the minutes as appendix 2.

5. Confirmation of the Open Economic Development Committee Minutes - 12 May 2020

Resolved: (Cr Wilson/Cr van Oosten)

That the Committee confirm the open minutes of the Economic Development Committee meeting held on 12 May 2020 as a true and correct record.

6. Chair's Report

Resolved: (Cr Wilson/Cr van Oosten)

That the Economic Development Committee receives the report.

Item 8 (Waikato Regional Airport – Statement of Intent and Letter of Expectation 2020/21) was taken after the conclusion of the above item 6 (Chair's Report) due to staff availability.

7. Waikato Regional Airport - Statement of Intent and Letter of Expectation 2020/21

The General Manager Venues, Tourism and Major Events provided background to the report. He responded to questions from Members concerning the support of shareholders.

Resolved: (Cr Wilson/ Cr Hamilton)

3. That the Economic Development Committee:

a) receives the revised WRAL draft statement of intent for the 2020/2021 financial year;

b) approves the draft Council letter of expectation to be forwarded to the WRAL Board; and

c) notes that these recommendations supersede the resolution on both matters from the 10 March 2020 Economic Development Committee meeting.

8. Hamilton and Waikato Tourism Limited - Year End Report 2019/20

Jason Dawson (CEO Hamilton and Waikato Tourism Limited) provided background to the report.

He responded to questions from Members concerning return on investment, statistics provided to Council, service reviews, leisure service packages, visitor awareness, COVID-19 impact on festivals, cultural experiences available, corporate services, quarantine hotels, short term rentals, accommodation rates and activating local tourism.

Staff action: *Staff undertook to circulate information to members concerning the number of residential properties used primarily for commercial accommodation, and commercial rates designation (rather than residential rate) for these properties.*

Resolved: (Cr Hamilton/Cr Wilson)

That the Economic Development Committee receives the report.

Mayor Southgate joined the meeting (10:13am) during discussion of the above item. She was present when the item was voted on.

Maangai Thompson-Evans joined the meeting (10:15am) during the discussion of the above item. She was present when the matter was voted on.

The meeting was adjourned from 11:25 to 11:35am

9. Hamilton Central Business Association - Six-Monthly Update

Vanessa Williams (CEO Hamilton Central Business Association) spoke to the report and outlined how Hamilton Central Business Association adapted to the COVID-19 restrictions and of future growth.

She responded to questions from Members concerning changes in consumer spending, bringing business into Garden Place, central city activation opportunities, package deals, activating regional tourism and the Garden Place revitalisation budget.

Resolved: (Cr Hamilton/Cr Wilson)

That the Economic Development Committee receives the report.

Mayor Southgate left the meeting (11:45am) during the discussion of the above item. She was not present when the matter was voted on.

10. Te Waka Six-Monthly Update

Hamish Bell (Te Waka) spoke to the history of Te Waka, and its long term goals.

He responded to questions from Members concerning construction initiatives, supporting the construction industry, co-operative approaches and future threats and opportunities.

Resolved: (Cr Hamilton/Cr Wilson)

That the Economic Development Committee receives the report.

*At the conclusion of the above item 10 (Te Waka Six-Monthly Update) Item 15 (Resolution to Exclude the Public) and the public excluded agenda was taken to accommodate guest presenter availability***.**

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15. Resolution to Exclude the Public

Resolved: (Cr Wilson/Cr van Oosten)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Appointment of Directors - Waikato Regional Airport Limited	) Good reason to withhold) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987)	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to protect the privacy of natural persons	Section 7 (2) (a)
	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)
	to enable Council to carry out negotiations	Section 7 (2) (i)
Item C2.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)

The meeting went into a Public Excluded session at 12:14pm.

Maangai Thompson-Evans retired from the meeting during the public excluded session.

The meeting returned to an open meeting at 1:45pm.

Item 5

Attachment 1

11. Major Event Sponsorship Fund - recommendations for approval

The General Manager Venues, Tourism and Major Events spoke to the effect of Covid-19 on major events this year, and spoke to the report.

He responded to questions from Members concerning collaboration with other Councils, private ventures applying for major event funding, other sponsorship partners, rationale for not funding projects, effect of COVID-19 restrictions on upcoming events and potential for historical event revitalisation.

Resolved: (Cr Hamilton/Cr Wilson)

That the Economic Development Committee:

a) receives the report including the management recommendations;

b) approves the following single year event sponsorship applications for financial sponsorship in 2020/21 (one year):

   i. **Cambridge to Hamilton Paddle Race 2020** by The Boatshed Kayaks Limited for $5,000;

   ii. **NZ U15 & U19 Badminton Championships 2020** by Badminton NZ Incorporated for $5,000;

   iii. **Rāhui Pōkeka Ahurei 2020** by Tainui Teachers Association Society Incorporated for $15,000;

   iv. **NZ Artistic Swimming Nationals 2020** by Tauranga Synchronised Swimming Club Incorporated for $2,000;

   v. **He Piko He Taniwha 2021** by Tainui Waka Tourism Incorporated for $25,000;

c) approves the following multi-year event sponsorship applications for financial sponsorship 2020/21 and 2021/22 (for two years):

   i. **The Great Kiwi Walk Series 2021 and 2022** by SMC Events for $10,000 each year;

d) approves the following multi-year event sponsorship applications for financial sponsorship in 2020/21, 2021/22 and 2022/23 (for three years):

   i. **Round the Bridges 2020, 2021 and 2022** by Hamilton Harriers Club Inc and Classic Events for $10,000 each year;

   ii. **Hamilton Gardens Arts Festival 2021, 2022 and 2023** by Hamilton Gardens Summer Festival Foundation for $120,000 each year;

   iii. **iBoon: Hamilton Street Art Festival 2021, 2022 and 2023** by Hamilton Arts Trust for $25,000 each year;

   iv. **Balloons over Waikato 2021, 2022 and 2023** by Balloons over Waikato Trust and Classic Events for $120,000 each year;

   v. **Feast Waikato 2021, 2022 and 2023** by Waikato Food Inc for $10,000 each year.

e) approves the following event sponsorship applications for financial sponsorship in 2021/22 (one year):

   i. **New Zealand Marching Championships 2022** by Marching Waikato for $20,000

f) approves the following event sponsorship applications for financial sponsorship in 2021/22 and 2022/23 (two years):

   i. **The Achilles Hope and Possibility Marathon 2021 and 2022** by Achilles Track Club NZ Inc for $10,000 each year.

Attachment 1

Item 5

g) declines the following applications for financial sponsorship in 2020/21:

i. Daedalum@ the Waikato A&P Show 2020 by Showing Waikato Limited;

ii. Art for All@ the Waikato Show 2021, 2022 and 2023 by Showing Waikato Limited;

h) notes the remaining surplus in 2020/21 budget will remain in the fund available for any out of round applications for the remaining of the current financial year; and

i) notes the remaining surplus of future year's fund will be available for further allocation expected to open in March/April of the relevant year.

12. Updated Economic Development Agenda

The Key Account Manager and General Manager City Growth spoke to the report and outlined the teams involvement in communicating with stakeholders.

They responded to questions from Members concerning staff capacity to deliver the Economic Development agenda, actions moving forward and including stakeholders in developing an economic development agenda.

Resolved: (Cr Hamilton/Cr Wilson)

That the Economic Development Committee:

a) receives the report; and

b) approves the proposed update to the Economic Development Agenda.

The meeting was adjourned from 2:31pm to 2:40pm during the above item.

The following item was moved to the open agenda during the confirmation of the agenda.

C2. Municipal Endowment Fund - Management and Policy Approval

The Strategic Property Team Leader spoke to the report.

She responded to questions from Members concerning legal requirements of endowment funds and property leasing.

Resolved: (Cr Hamilton/Cr Wilson)

That the Economic Development Committee recommends that the Council:

a) approves the Draft Municipal Endowment Fund Policy (previously the Municipal and Domain Endowment Fund Policy);

b) approves the revised accounting treatment of the Municipal Endowment Fund to be reported separately within Council's financial statements to accurately reflect the status of the fund.

c) approves the development of an Action and Management Plan for the Municipal Endowment Fund be consideration in the 2021-31 Draft LTP; and

d) delegates Deputy Mayor Taylor, Crs Hamilton, Wilson and Pascoe to work with staff to develop the Action and Management Plan.

13. **H3 Group - Quarter 4 and Year End Report 1 July 2019 to 30 June 2020**

The General Manager Venues, Tourism and Major Events spoke to the report, highlighting that security, sustainability and technology have been priorities. He noted that estimates within the report were conservative, and the H3 Group are increasing work to generate additional jobs.

He responded to questions from Members concerning current H3 Group capacity and adapting to COVID-19 restrictions.

Resolved: (Maangai Te Ua/Cr Wilson)
That the Economic Development Committee receives the report.

14. **Open Information Only Reports**
Resolved: (Cr Hamilton/Cr Pascoe)

That the Economic Development Committee receives the following information only reports:
- General Managers Report; and
- Covid-19 Economic Update - 26 August 2020.

The meeting was declared closed at 3:14pm.

Attachment 1

Item 5

Item C2

Appendix 1:

Council Report

Committee:	Economic Development Committee	**Date:**	08 September 2020
Author:	Wendy O'Neill	**Authoriser:**	Sean Murray
Position:	Strategic Property Team Leader	**Position:**	General Manager Venues, Tourism and Major Events
Report Name:	Municipal Endowment Fund - Management and Policy Approval		

Report Status	*This report is taken as a publicly excluded item to enable Council to carry out commercial activities without disadvantage.*

Purpose - *Take*

1. To inform the Economic Development Committee on the proposed revisions to the Municipal and Domain Endowment Fund Policy (MDEF Policy) to separate the Municipal Endowment Fund (MEF) from the Domain Endowment Fund (DEF).
2. To seek the Economic Development Committee's approval of the Draft Municipal Endowment Fund Policy (MEF Policy).
3. To seek approval from the Economic Development Committee to develop an Action and Management Plan for consideration in the 2021-31 Draft Long Term Plan on use of the Municipal Endowment Fund (MEF).
4. To seek a recommendation from the Economic Development Committee to the Council to approve the proposed changes to the accounting treatments of the MEF to establish its own separate set of accounts.

Staff Recommendation - *Tuutohu-aa-kaimahi* (Recommendation to the Council)

5. That the Economic Development Committee recommends that the Council:
   a) approves the Draft Municipal Endowment Fund Policy (previously the Municipal and Domain Endowment Fund Policy);
   b) approves the revised accounting treatment of the Municipal Endowment Fund to have its own separate set of accounts to accurately reflect the status of the fund;
   c) approves the development of an Action and Management Plan for the Municipal Endowment Fund be consideration in the 2021-31 Draft LTP;
   d) delegates Elected Member 1 and Elected Member 2 to work with staff to develop the Action and Management Plan; and
   e) notes that the decision and information in relation to this matter remain publicly excluded for the reasons outlined in the report.

Executive Summary - *Whakaraapopototanga matua*

6. At the Elected Members briefing on 5 August 2020, Members considered the need to amend the current Municipal and Domain Fund Endowment Policy to promote better management and accountability of the Fund.
7. Staff recommend splitting the current policy in to two separate policies; the MEF and the Domain Endowment Fund (DEF) as sit under two different legislative frameworks that are not strictly compatible.
8. A draft Municipal Endowment Fund Policy is attached (see Attachment 2). The DEF Policy revision will be presented to the 11 November 2020 Economic Development Committee meeting.
9. The MEF's main objective is to preserve the capital of the Endowment Fund so that it is available in perpetuity as an assured source of income that is utilised for the purpose it was endowed.
10. The MEF currently sits within the Council's General Fund. Staff propose that the MEF be allocated a separate set of accounts to accurately show income less costs to allow improved transparency of the MEF's performance, i.e. for municipal benefit.
11. Staff consider the matters in this report to have low significance and that the recommendations comply with the Council's legal requirements.

Background - *Kooreo whaimaarama*

12. The MDEF Policy was approved by the Finance Committee and came into force on 14 March 2019 (Attachment 1).
13. The MDEF Policy has been revised and it is proposed to separate the MEF from the DEF. This is so the MEF Policy can set out the Council's objectives for the Endowment Fund in a clearer manner.
14. The Economic Development Committee holds the delegations for developing, recommending and monitoring the MDEF policy.
15. The Finance Committee is responsible for development of the financial management component of the MDEF policy and as such agreement has been sought from the Chair and Principle Advisor of the Finance Committee that the financial management component of recommended directly to the Council for completeness.

Current Status

Municipal Endowment Fund (MEF)

16. The MEF originated in the 1870s as a Crown grant of lands to the Hamilton Borough intended to provide an enduring income for "Municipal Purposes". While "Municipal Purposes" is not defined, the Council has in recent years utilised a portion of the capital to offset debt, and the income to offset operating costs in accordance with the MEF policy prevailing at the time.
17. The MEF consists of three asset categories:

Category	Value ($)	Proportion
Land (3 ground leases)	2,320,000	5%
Investment Property (3 commercial properties)	15,000,000	32%
Cash (Restricted Reserve - used to offset debt)	29,019,293	63%
Total	48,024,293	100%

18. The land subject to ground leases can be sold ("freeholded") at the request of the lessee. Council does not control the sale of this land. The controlling interest in the land is owned by the lessee. This category of the endowment is covered by the Freeholding of Council Endowment Land Policy.

19. The investment properties can be sold at any time – noting that the decision to sell should be based on commercial property-related factors. To maximise sale proceeds, the properties should be sold on the open market in a transparent and fully competitive process.

Domain Endowment Fund (DEF)

20. The DEF was originally established in 1911 and owned by the Hamilton Domain Board. The Hamilton City Council is the successor to the Hamilton Domain Board.

21. The DEF functions differently from the MEF in that it operates under the Hamilton Domain Endowment Act 1979, a unique legislative framework, and the money from sale of domain endowment land is used for different purposes as specified in the Act, specifically:
    - to meet the cost of improvement or development of recreation reserves
    - to purchase land as recreation reserve subject to the Reserves Act.

22. The fundamental obligation on the Council regarding the DEF is to ensure that it is held to enhance existing reserves or to acquire new land for reserves. DEF assets (land, buildings and cash) must retain a separate identity.

23. In the past, the Council has used money from the sale of DEF land to develop commercial premises (such as *The Verandah* at Hamilton Lake Domain), on the basis that they enhance the amenity of the reserve land on which they sit, and the income they generate is used to benefit reserves within the city.

24. The Council has historically used a portion of the capital to offset debt and the income to offset the Parks and Open Spaces Unit's operating costs.

25. The DEF consists of two asset classes:

Category	Value ($)	Proportion
Land (6 ground leases)	3,480,000	30%
Cash (Restricted Reserve = used to offset debt)	8,073,792	70%
Total	11,553,792	100%

26. As the DEF is governed by a separate Act from the MEF, the current policy restricts actions and use of the MEF. Staff have investigated a proposed separation and revision of the existing policy to allow the two funds to be administered according to their respective legislative frameworks.

27. Staff recommend separating the DEF and MEF into different policies. The DEF Policy revision will be presented to the Economic Development Committee at a later date.

Discussion - *Matapaki*

Revised Draft MEF Policy

28. A recent review by staff has brought about further considerations as to both the accounting treatment of the MEF and revising the policy to better align with the requirements of the purpose of the Fund and the Council's strategic vision (Attachment 2).

29. The following principles are suggested for the revision of the policy:

a) The capital of the MEF must be preserved to comply with the common law principles of endowment.

b) Income earned from the MEF must be either accumulated and become part of the fund or applied for municipal purposes.

c) The MEF should be invested in property or property development where broader economic and social benefits can be secured in support of the Council's plans, city strategy, growth and liveability.

d) Investment should seek to increase and grow the capital value of the MEF.

e) The MEF shall be subject to authoritative governance and management oversight by regular reporting to the appropriate committee of Council on a quarterly basis.

f) All income and expenditure attributed to the MEF should be reported separately to ensure the complete financial performance of the MEF is transparent.

g) The MEF should seek to generate medium- and long-term net revenue at or above market norm where possible at the lowest risk to the Council.

Previous Developments

30. The Council has been involved in several successful developments using endowment land and funds as follows:

Location	Type of Development	Benefits
BNZ, Victoria St	Purchased using funds from the MEF as an investment property built by Hamilton Properties Ltd	Sold for above market value for a net revenue gain of $1,332,194 in line with Property Strategy
PWC, Anglesea St	Sale of MEF ground leases to Wintec with provisos for developer to subdivide sites to support the development by Wintec of its campus and return certain land to the Council	Development of Wintec campus with commercial office and retail space provide better transport connectivity and create an open public plaza
Genesis Energy, Bryce St	Sale of DEF ground lease to lessee for redevelopment subject to Council provisions	To promote a development that connects park to city with pedestrian activities, transport hub
Pending Redevelopment		
Wintec, Ward St	Sale of ground leases to lessee with redevelopment provision attached to sale for site	To promote urban growth, activate building frontages along Ward St and Tristram St, promote pedestrian-orientated activities, residential and commercial activities

Financial Considerations - *Whaiwhakaaro Poute*

Current Financial Status of Municipal Endowment Fund

31. The MEF currently has $29,019,293 in cash and property assets, which generate revenue of $119,072 per annum and hold a land value of $2,320,000. Once the sale of the Wintec ground leases concludes on 13 November 2020, there will be only two residential ground leases left of Municipal Endowment Land which hold a nominal value.

Municipal Investment Property

32. The Council holds four Municipal Endowment Investment properties that generate $1,138,715 in rental per annum with a capital value of $12,222,000, which were purchased from the Fund to generate income back to the Fund. Staff recommend that these revenues be transferred to the MEF budget along with the operational costs to provide clear accounting.

Financial Impact

33. The inclusion of the MEF into the General Fund, where it currently sits, was brought about as a result in the Council's decision to use the Local Government Financial Accounting calculation on the revenue-to-debt ratio. This calculation involved the inclusion of all cash into the General Fund.

34. Advice received from the General Manager, Corporate in relation to any financial consequences of excluding the MEF from the General Fund are simple; ringfencing the MEF can happen.

35. The simplest and most preferred way is changing the Council's "Debt to Revenue" (DTR) calculation to exclude the MEF, which can be done through the LTP review of the Financial Strategy. This would increase our DTR ratio, meaning the Council could borrow less on general spending (less by the MEF amount). This would ring fence borrowing capacity equal to the MEF amount meaning that when an endowment opportunity came up the funds to invest would be available.

Options

36. Staff have assessed that the most viable accounting treatment option for the Committee to consider, based on financial advice, is set out in paragraph 34 above.

37. The recommendation to revise the policy and accounting treatments will allow the Council to provide broader economic and social benefits to support Hamilton's plans, city strategy, growth and liveability.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

38. Staff confirm that the proposed policy changes comply with the Council's legal requirements and support the requirements for the use and purpose of the MEF under the Local Government Act 2002.

39. Tompkins Wake has reviewed the MEF Policy and confirmed that it complies with the requirements of use of the MEF.

Wellbeing Considerations - *Whaiwhakaaro-aa-orange tonutanga*

40. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

41. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.

42. The recommendations set out in this report are consistent with that purpose.

Social

43. The revised MEF Policy will promote better outcomes for the community at large, helping to create a more vibrant Hamilton with greater social interaction.

Economic

44. The changes to the MEF Policy will allow better key development opportunities which will help attract business growth, grow the city's economy, aid potential public and private investment and help with prioritising future funding decisions and business cases.

Environmental

45. The proposed changes to the MEF Policy will allow redevelopments that will align with the Council's CCTP refresh, taking into consideration connections between the central city and the river to restore and protect the balance of the environment.

Cultural

46. Any redevelopments resulting from the use and investment of the MEF will endorse and embrace the cultural identity of the city.

Risks - *Tuuraru*

47. If the revision of the policy and the accounting treatments are not approved, this will restrict the Council's flexibility to use the MEF for municipal purposes and provide less transparent financial performance reporting.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

48. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the matter(s) in this report has/have a low level of significance.

Engagement

49. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Municipal Endowment Fund and Property Investment Policy - Track changes

Attachment 2 - Municipal Endowment Fund Policy Draft Revision

Attachment 1

Item 5

Item C2

Attachment 1

First adopted:	26 August 1998
Revision dates/version:	6 November 2002, 6 July 2005, 10 March 2008, 10 December 2008, 8 April 2009, 2 August 2016, 14 March 2019
Next review date:	14 March 2022
Engagement required:	Not SCP
Document number:	D-2157562
Associated documents:	Appointment and Remuneration of Board Members of Council Controlled Trading Organisations (CCTOs) Policy; Freeholding of Council Endowment Land Policy; Sale and Disposal of Council Land Policy
Sponsor/Group:	General Manager City Growth

Municipal Endowment Fund Policy

Deleted: & Property Investment

Purpose and Scope

1. To provide principles and criteria for management of the Municipal Endowment Fund("Fund"). and its ongoing investment.

Principles

2. The capital of the Fund must be preserved to comply with the common law principles of endowment.
3. Income earned from the Fund must be either accumulated and become part of the fund or applied for municipal purposes.
4. The Fund should be invested in property or property development where broader economic and social benefits can be secured in support of the Council's plans, city strategy, growth and liveability.
5. Investment should seek to increase and grow the capital value of the Fund.
6. The Fund shall be subject to authoritative governance and management oversight by regular reporting to the appropriate committee of Council on a quarterly basis.
7. Minimisation of overhead operating costs of the Fund within Council to be maintained.
8. All income and expenditure attributed to the Fund should remain with the Fund in its own stand-alone balance sheet.
9. The Fund should seek to generate medium and long-term net revenue at or above market norm where possible at the lowest risk to the Council.

Policy

5. Management of the Fund is the responsibility of Council. The responsibility for management may be delegated to a committee of Council, or to a Council Controlled Trading Organisation.
6. Where possible the Fund should be invested to support, advance and implement Council's strategic plans and vision. The Council will identify priorities for investment within each 10-Year Plan.

Deleted: used

7. To achieve the outcomes required in paragraph 6, the entity managing the Endowment Fund may:

Deleted: and

Hamilton City Council
Te kaunihera o Kirikiriroa

a. Carry out feasibility studies and develop master plans on best options and timings for use of the Fund for Council's approval;
b. Undertake new profitable medium to long term investments as cash flows allow which, over their life, will yield a substantially greater return than previously achieved;
c. Promote development of properties in a manner which will maximise the commercial value of the asset while supporting broader economic and social benefits for the City of Hamilton in line with Hamilton's strategies to support growth and liveability;
d. Encourage freeholding of remaining original endowment properties in accordance with Council's existing freeholding policy to generate capital for investment in higher yielding assets as soon as practicable;
e. Ensure connectivity of future developments with other key groups within the Council to drive success;
f. Undertake all appropriate due diligence and complete and assess business plans to mitigate risk in respect of all the Fund's investments and developments;
g. Enter into joint venture or turn-key developments to provide flexible options for the future with approved development partners;

8. The Council shall at all times manage the Fund on a prudent basis and in accordance with Council's legal obligations. In the course of such management Council shall

   a. Enter into and effectively administer service contracts with other public sector entities; and
   b. Strive to minimise operating costs.

9. Where possible and appropriate any developments supported by the Fund should be undertaken in conjunction with a suitably experienced and qualified development partner (subject to appropriately documented and mutually beneficial partnership conditions).

10. All projects or proposals for investment by the Fund should include a proposed investment exit plan at a timeframe to be determined by the project needs (and partners).

Deleted: Feasibility

Deleted:

Deleted: carried out

Deleted: done

Deleted: Seek

Deleted: sector entities

Deleted: <#>The Fund may be used for potential project feasibility and development costs, whether solely or in tandem with partners.¶

Deleted: and

Municipal Endowment Fund

Purpose and Scope

1. To provide principles and criteria for management of the Municipal Endowment Fund ("Fund") and its ongoing investment.

Principles

2. The capital of the Fund must be preserved to comply with the common law principles of endowment.
3. Income earned from the Fund must be either accumulated and become part of the fund or applied for municipal purposes.
4. The Fund should be invested in property or property development where broader economic and social benefits can be secured in support of the Council's plans, city strategy, growth and liveability.
5. Investment should seek to increase and grow the capital value of the Fund.
6. The Fund shall be subject to authoritative governance and management oversight by regular reporting to the appropriate committee of Council on a quarterly basis.
7. All income and expenditure attributed to the Fund should be reported separately to ensure the complete financial performance of the fund is transparent.
8. The Fund should seek to generate medium and long-term net revenue at or above market norm where possible at the lowest risk to the Council.

Policy

1. Management of the Fund is the responsibility of the Council. The responsibility for management may be delegated to a committee of Council, or to a Council Controlled Trading Organisation.
2. Where possible the Fund should be invested to support, advance and implement the Council's strategic plans and vision. The Council will identify priorities for investment within each 10-Year Plan.
3. To achieve the outcomes required in paragraph 6, the entity managing the Endowment Fund may:
    a. Carry out feasibility studies and develop master plans on best options and timings for use of the Fund for Council's approval;
    b. Undertake new profitable medium- to long-term investments as cash flows allow which, over their life, will yield a substantially greater return than previously achieved;
    c. Promote development of properties in a manner which will maximise the commercial value of the asset while supporting broader economic and social benefits for the City of Hamilton in line with Hamilton's strategies to support growth and liveability;
    d. Encourage freeholding of remaining original endowment properties in accordance with the Council's existing freeholding policy to generate capital for investment in higher-yielding assets as soon as practicable;

e. Ensure connectivity of future developments with other key groups within the Council to drive success;

f. Undertake all appropriate due diligence and complete and assess business plans to mitigate risk in respect of all the Fund's investments and developments;

g. Enter into joint venture or turn-key developments to provide flexible options for the future with approved development partners.

4. The Council shall at all times manage the Fund on a prudent basis and in accordance with the Council's legal obligations. In the course of such management the Council shall:

   a. Enter into and effectively administer service contracts with other public and private sector entities; and

   b. Strive to minimise operating costs.

5. Where possible and appropriate any developments supported by the Fund should be undertaken in conjunction with a suitably experienced and qualified development partner (subject to appropriately documented and mutually beneficial partnership conditions).

6. All projects or proposals for investment by the Fund should include a proposed investment exit plan at a timeframe to be determined by the project needs (and partners).

Appendix 2:

Roger Stratford

Economic Development Committee,

Addressing Item 6: Chair's Report, I note the broad sweep of today's meeting agenda themes, however, there are some comments worth making.

Firstly, the re-purposing of 'municipal endowment funds' mentioned suggests to me too great a licence over the public purse set aside for future use. These changes require legislative approval with public consultation.

Secondly, your 'tech' solution to learning catch-up from lockdown appears lean on trades' development, crucial to the post-CoVid recovery. Consultations should include private providers such as motor garages and dental clinics, rather than rely so-heavily on superficial online learning through local educational institutions.

Finally and damningly, the Chair's Report by its exclusive focus on youth training programmes, completely ignores its senior citizen population, many of whom actively seek skills retraining. Retirees will play a pivotal role in Hamilton's post-CoVid recovery. All age groups must be included in retraining assistance programmes, especially our seniors, as they still have valuable contributions to make. I can personally attest to this.

Roger Stratford

Council Report

Item 6

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Tyler Gaukrodger	**Authoriser:**	Becca Brooke
Position:	Governance Advisor	**Position:**	Governance Manager
Report Name:	Chair's Report		

Report Status	*Open*

Recommendation *(Recommendation to the Council)*

That the Economic Development Committee:

a) receives the report;

b) recommends the Council approves future International Relations Policy reports be reported to the Economic Development Committee;

c) recommends the Council approves the Municipal Endowment Fund Assessment criteria that will enable the development of the Action and Management Plan (for the Municipal Endowment Fund); and

d) requests staff seek expressions of interest from suitably qualified personnel to continue to assist the Municipal Endowment Fund work noting this will be funded from the Municipal Endowment Fund.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Chair's Report - 11 November 2020

Attachment 2 - Municipal Endowment Fund Working Party Assessment Criteria Revision

Attachment 3 - Municipal Endowment Fund Working Party Meeting Minutes - 20 October 2020

Chair's Report

Kia ora and welcome.

Our economy seems to continue to be resilient and press on despite continued uncertainty and challenge across our world.

It is fantastic to see Cr. Ewan's advocacy is his role as a rail governance group member secure a weekend charter service that not only stimulates utilisation of the new train service but further promotes our city and region and visitor destination experiences. It is also a great example of collaborating with local operators to generate economic activity.

We have had a high level discussion with a developer keen on doing something very special in our CBD with a potential bungee tower with more detailed and design and discussion with elected members likely to be early in the new year.

Some of you were at the recent Grow Waikato event hosted by Hamilton East MP Jamie Strange showcasing the high level of investment being made both in our CBD and in our city by developer's passionate about investing not only for today but for our generations to come which was not only pleasing but also inspiring and the importance of strong collaboration with Council in its role as a regulator but also as an enabler was made clear by Mayor Paula and echoed by the speakers.

An inaugural meeting with Tertiary, Business and Community leaders was held to continue the formation and understanding of the current stock take on our relationship status with our Sister Cities, the challenges and opportunities. (see photo). We will continue to layer this up and are now putting them through the lens of the four well beings and working on developing a strategic framework both short and long term objectives. I note our International Relations Policy (yes we have one) is coming up for review. Whilst it is probably largely still fit for purpose, this currently delegated under the Community Committee and it may fit better with the Economic Development Committee as it would enable the reporting of this work to be more streamlined. I have spoken to Cr Mark about this and would like to recommend this to the Council.

The Municipal Endowment Fund working Group met on 20th October and has agreed on the assessment criteria as attached. The group is also keen to engage two competent commercial property consultants that can work alongside the group to provide guidance to potential opportunities that may arise or can be proactively pursued. They would be funded out of the MEF fund.

Minutes and revised Assessment Criteria is attached.

Chair's Recommendation

That the Economic Development Committee:

a) receives the report;
b) recommends the Council approves future International Relations Policy reports be reported to the Economic Development Committee;
c) recommends the Council approves the Municipal Endowment Fund Assessment criteria that will enable the development of the Action and Management Plan (for the Municipal Endowment Fund); and
d) requests staff seek expressions of interest from suitably qualified personnel to continue to assist the Municipal Endowment Fund work noting this will be funded from the Municipal Endowment Fund.

Councillor Ryan Hamilton
Chair, Economic Development Committee
Hamilton City Council

ASSESSMENT CRITERIA – MEF PROPERTY INVESTMENT

Requirement: *"To establish a management plan and timings for use of the Municipal Endowment Fund".*

Preamble:

1. A project must be viable from a commercial perspective and must have a business case to support it.

2. The whole project must return a profit in return for the funds invested but at the same time deliver according to Councils values and expectations; make a measurable difference.

3. The Council Investment and Liability Management Policy is to be adhered to. *Note: approval to financial investments is delegated to the General Manager Corporate*.

4. The *Sale and Disposal of Council Land Policy* 2019 is to be complied with.

5. Non-financial benefits of investments must be considered in the light of making Hamilton a better place; aspirational city projects; advancing city plans; inspires consequential desirable developments by others.

MEF Operational Method:

6. Elected member working party established.
   a. Deputy Mayor
   b. Chair, Finance Committee
   c. Chair, Economic Development Committee
   d. Deputy Chair, Economic Development Committee

7. Working party
   a. Establishes overriding project conditions
   b. Decision making criteria established
   c. Establishes criteria for investigating investment opportunities
   d. Identifies potential projects for investigations
   e. Instructs feasibility study expenditure (from MEF cash reserves) once benchmarked with other opportunities identified by the full working party)
   f. Working party reports to each Economic Development Committee meeting including the financial and project status of the fund, any proposed feasibility expenditure and ultimate projects entered (inc staged negotiation terms) must be supported by the Economic Development Committee to be put forward to full Council for approval.

8. Operational management
   a. Internal management working party with external expert advisor

Project Conditions:

9. Work with a partner(s)(shared vision, with the right expertise and the right vision), subject to due diligence being completed prior.
10. The partner must have the right credentials and acumen in relation to the project.
11. The business case must prove that viability and identify the risk shared with the partner (s). A clear statement about the effect of the proposal; evidence of the benefits, evidence of the profitable return during and /or at exit of the investment.
12. Non-financial benefits of investments must be considered in the light of community/social, cultural, environmental and economic investments.

13. An exit agreement (that protects that profit) must be clear with the partner up-front.
14. No single project funded for more than 3-5 years and always with an expert/risk sharing partner.
15. Option to retain long term ground lease of property and sell development rights with criterias and outcomes set out for land.

Investment Conditions:

16. Investments must consider a portfolio mix to spread risk, e.g commercial, retail, industrial, ground leases.
17. One investment must not be worth more than the total portfolio value.
18. Limiting exposure to singe tenants, e.g. no more than 10% of portfolio

Minutes of a meeting of the Municipal Endowment Fund Working Party

Name of meeting-Inaugural Meeting

Time and date:	2.00pm, Tuesday 20th October 2020
Venue:	Councillors Lounge, Level 9, Municipal Building
In Attendance:	Councillors, Geoff Taylor, Ryan Hamilton, Ewan Wilson, Rob Pascoe, Sean Murray, General Manager, Venues, Tourism and Major Events, Wendy O'Neill, Strategic Property Team Lead, Peter Duncan, Tompkins Wake.
Apology:	Jen Baird, General Manager, City Growth

1) Introduction

Sean provided an overview of the MEF confirming requirement to ensure value of return on capital by way of interest and the requirement to preserve the fund.

Confirmation that the accounting treatments for the fund have been undertaken and there is a requirement for the Council to be more proactive in managing the fund or it risks running down the capital value.

The fund is required to show more benefit from allowing the Council to borrow less to showing that the fund is not diminishing.

Wendy confirmed that there had been several sales of Municipal Endowment Investment properties over the last 12 years that has depleted the annual income source.

Discussions were held on whether consideration to moving Corporate Properties into the Fund should be considered. Peter Duncan explained how doing this may not be beneficial as it restricted the future use of the Corporate Properties by the Endowment criteria.

The Working Party established that there were 3 issues for the Party to resolve:

1. What Process and System is to be used to identify opportunities
2. Any requirement to address original value of fund and lost opportunities
3. If the Fund provides liquidity to the Council does the removal, then put pressure on the Council to go out and borrow more?

Options for Use of Fund

1. Council does it alone
2. Council partners with the appropriate parties
3. Council creates a CCO to manage the fund

Strategic Properties

Discussion was held on using the Fund to forward the development of the three strategic properties being:

- Sonnings Car Park
- Artspost
- Victoria Street Building

which are considered the possibly easier to activate.

Consideration to engaging an external property advisor or ideally advisors with the right expertise to provide guidance on focus and doing a Masterplan for use of the fund was discussed in favour of establishing a CC.

An action to go to market prior to Chrismas for these advisors was agreed upon.

Discussions on utilising our own land for development first and setting criteria were carried out and it was agreed we needed the right people with the right expertise to advise the group and put together deals with external parties.

The Working Party confirmed the importance of the Council setting the scene in respect of developments within the CBD and going out to the market for RFPS to source suitable applicants to partner with.

Discussion were held to look a broader portfolio investment diversity however we did not consider it prudent to do this on our own but obtain a partner to minimise risk ensuring we had a clear exit plan for each development.

Consideration to doing long term, holds or are mixture of investments was discussed.

Actions Considered:

1. Working Party to provide advice before going out for expressions of interest
2. Utilising current funds only two to three major projects would be viable at a time.
3. Need to locate a partner with same shared Vision as per item 9 on Draft Assessment Criteria Schedule (DACS).
4. Ensure we are the catalyst to manage development
5. Ensure we partner with the party with the right credentials and acumen in relation to projects (see item 10 DACS)
6. Establish and agree ground rules. Including requirement for “exit strategy” on each project
7. Consideration as to whether we need at least 3 out 4 consensus and obtain a delegation from the committee to allow this authority.
8. Establish some founding principles around land, whether to sell or doing joint partnership for developments.
9. Establish timeframes over the next three months, setting guiding principles, go out for expressions of interest for Advisors, identify a portfolio of properties that could be bought.? Or utilised within HCC existing portfolios.

Legal Action:

Peter Duncan to check Audit Office Report to confirm whether we need to go through and LTP process to carry out developments.

Next Meeting

It was agreed that the working party would meet again after the next Economic Development Committee meeting.

Actions Required:

Wendy to put together information on Sonnings, Artspost and Victoria St for working party.

Wendy to redo the Assessment Criteria for distribution to working party members for consideration.

Peter Duncan to provide advice from Audit Office report on LTP.

The meeting was declared closed at 4:10pm.

Council Report

Committee: Economic Development Committee

Date: 11 November 2020

Author: Sean Murray

Authoriser: Sean Murray

Position: General Manager Venues, Tourism and Major Events

Position: General Manager Venues, Tourism and Major Events

Report Name: Waikato Regional Airport Limited - Year End Report 2019/20

Report Status	*Open*

Purpose - *Take*

1. To inform the Economic Development Committee of the Waikato Regional Airport Limited (WRAL) draft year-end report for the period 1 July 2019 to 30 June 2020.

2. To inform the Economic Development Committee that WRAL have been advised by Audit NZ that their final audit sign off has been delayed to 2021 as a non-priority audit. The finalised audit document will be circulated to Council when it is available.

3. WRAL representatives will provide a verbal update at the Economic Development Committee meeting.

Staff Recommendation - *Tuutohu-aa-kaimahi*

3. That the Economic Development Committee receives the draft 2019/20 Annual Report from WRAL noting the final audit version will be circulated when available.

Executive Summary - *Whakaraapopototanga matua*

4. WRAL operates as a limited liability company, with the following shareholders:

Council	Shareholding
Hamilton City Council	50.00%
Matamata-Piako District Council	15.63%
Waikato District Council	15.63%
Waipa District Council	15.63%
Otorohanga District Council	3.13%

5. The COVID-19 outbreak hitting New Zealand and the nationwide lockdown resulted in WRAL facing a range of very serious challenges to its operations and its short and medium-term financial performance in 2019/20.

6. As a result, the company (and as reported informally) instituted a range of measures to both respond to the challenge on the ground but also revised their future business projections for the new financial year (2020/2021).

7. WRAL have been advised by Audit NZ that their final audit sign off has been delayed to 2021 as a non-priority audit. The finalised audited 2019/20 Annual Report document will be circulated to Members when it is available.

8. Staff consider the matters and decisions in this report to have a low significance and that the recommendations comply with the Council's legal requirements.

Item 7

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

9. Staff confirm the recommendation complies with the Council's legal and policy requirements.

Financial Considerations - *Whaiwhakaaro Puutea*

10. There are no financial implications in relation to the recommendation in this report.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

11. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

12. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.

13. The recommendations set out in this report are consistent with that purpose.

14. WRAL's activity relates strongly to the economic wellbeing by its delivery of key objectives to operate an efficient and compliant airport, maximised revenue through diversification to protect the core aeronautical business and enhanced tourism growth within the region.

15. There are no environmental, social or cultural wellbeing implications identified in the formulation of this report.

Risks - *Tuuraru*

16. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

17. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation(s) in this report has/have a low level of significance.

Engagement

18. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

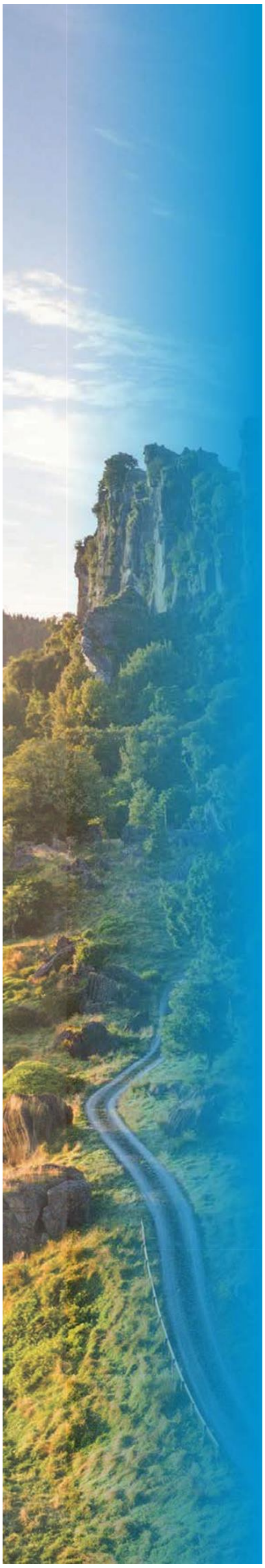
Attachment 1 - WRAL Year End Report 2019/20

ANNUAL REPORT

& Consolidated Financial Statements

For the year ended 30 June 2020

WAIKATO
REGIONAL AIRPORT LTD



Item 7

Attachment 1

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Chair's Introduction

While it is hard to look past the effects of the global COVID-19 pandemic on the last quarter of the financial year there are many underlying positives to reflect on over the year which leaves WRAL well positioned to recover quickly and strongly.

- Up to March 2020, the Aeronautical business had achieved steady growth of 8% in passenger numbers which had flowed through to related revenue streams such as car parking and in-terminal retail, including the recently acquired airport terminal café. While the airport finished the year down 21% on the previous year's passenger activity with just 304,000 passengers; the Group benefited from a full year of the revised commercial charges agreed with Air New Zealand in 2018, which ultimately meant our aeronautical income represented a small increase on the prior year. There were no scheduled airline flights during Alert Levels 4 and 3, however the Airport remained fully operational during this time for essential services, medical and military flights. A capital program of over $1 million was delivered as we continued reinvestment in our infrastructure to preserve our core aeronautical capabilities.
- Titanium Park delivered almost $6m in land sales from its first 'self-developed' precinct, the Southern Precinct, making a gross contribution to the Group's Net Profit before Tax of over $2.2 million. Construction of almost 6ha Stage One development was completed and later in the year the Stage Two construction began in response to continued strong demand. The Central Precinct also continues to expand with the 4th Stage under construction at year end and the 5th Stage well advanced in planning. We continue to look to the future with due diligence continuing on the opportunity to develop the Airport's farm into a industrial and commercial100-hectare Northern precinct.
- Our capital works program of over $6.5m in the current year was underpinned by the $4.0m investment in the Airport's Hotel that we assumed ownership of late in the previous financial year. The project remains on budget and is substantially complete with every room having been refurnished and renovated and only a few remaining rooms requiring the last cosmetic upgrades. All areas of the hotel have been modernised and refurnished. The highlight of the year was having hotel operators Jet Park Hotels lift the service and product standards, along with the refurbished property, to be accredited as a Qualmark 4-Star hotel. Like the aeronautical business, promising trading results were hampered late in the year due to the suspension of firstly international travel, then domestic travel and the resulting impact on tourism and conference activity.
- Hamilton & Waikato Tourism continue to promote the region as a destination for domestic and international leisure and business travellers alike. The success of the organisation is perhaps best reflected in its nomination as a finalist for the Ministry of Business, Innovation and Employment Industry Connections Award at the 2019 Tourism New Zealand Awards. The organisation has been very proactive in re-launching domestic tourism to the Waikato, with several pivotal initiatives. These include the very successful Mighty Local campaign

Our Statement of Comprehensive Revenue and Expense is punctuated by two very material line items, Other gains of $6.1m and Other losses of $1.5m. Despite the underlying strength of the business and the milestones our Group achieved it is clear the impact of COVID-19 on our business has been significant and will continue to be for some time. The decisions we have made as a group of companies to ensure our costs and upcoming investment remain right-sized to our earnings opportunity in the near future mean we have had to write down the value of several assets, particularly in relation to the aeronautical business.

On a more positive note, we have reported a $6.1m gain from the revaluation of our investment property portfolio. While this is a paper gain in 2020, the uplift in valuation reflects added value to the shareholders and signals an opportunity for increasing future earnings including returns from ground leases and investment properties. Much of the value-add arises from growth in local property prices spurred on by our own Titanium Park development. This reaffirms our confidence that the decision to adopt a non-aeronautical strategy centred around maximising the value in our property holdings was well founded. The investment into non-aeronautical ventures has proven its worth over the past few months and while there have been marked downturns in our aeronautical and tourism businesses the Group has remained responsive to opportunity and able to invest through a more cautious and measured lens.

At the time of writing, the heavily impacted aeronautical and hotel businesses have recovered well and the horizon for the next few months is very positive.

- We have seen airline activity recover quickly to 50% of its pre-COVID levels with expectations that airline scheduling will see 80% of pre-COVID activity resuming in the domestic market by the end of the 2020 calendar year. If passenger traffic keeps up with this, it is possible the Airport could deliver a 2021 result not materially different to 2020.
- Early in July 2020, our hotel operator Jet Park Hotels secured an agreement with the Ministry of Health to contract the property as a Managed Isolation Facility for New Zealanders returning from overseas to spend their 14 days of border isolation. This provides a very strong and secure income stream to a hotel which was already making great gains in recovering from the downturn in tourism. The securing of this contract is a credit to Jet Park Hotels and dovetails the success of the quarantine facility operated from their Auckland Airport property.

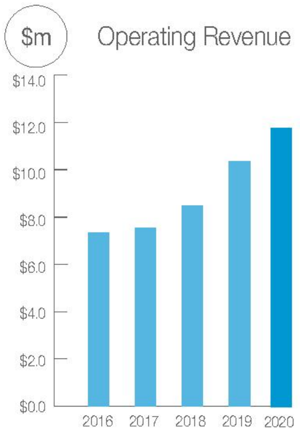
The outlook for next year is positive with the Group forecasting to generate positive cash flows from operations, and to be profitable. There are no identified impediments to prohibit us from achieving key milestones set out in our 10 year plan in 2018 and we do not anticipate needing to fully utilise our debt funding lines or call on our shareholders for financial support.

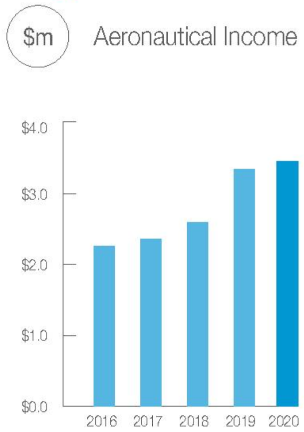
Barry Harris
Chair

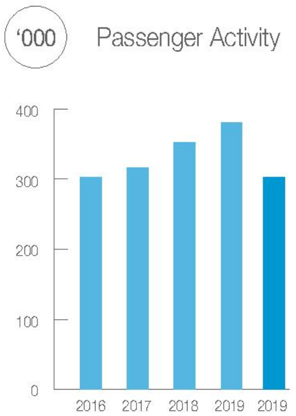
Attachment 1

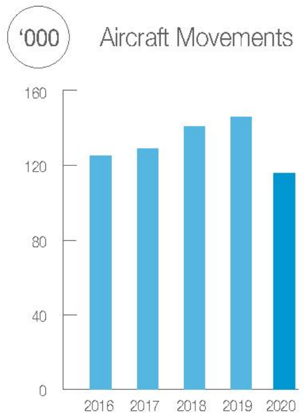
Item 7

2020 Results at a glance









Five Year Summary

All amounts in '000s	2016	2017	2018	2019	2020
Aeronautical Income	$2,258	$2,367	$2,595	$3,350	$3,379
Operating Revenue	$7,428	$7,635	$8,594	$10,484	$12,355
EBITDA (excluding Land Sales)	$2,587	$2,436	$2,871	$3,964	$2,838
Net Profit Before Tax	$490	$4,063	$2,640	$3,021	$5,698
Passenger Activity	303	317	353	381	304
Aircraft Movements	125	129	141	146	116
Total Assets ('000s)	$82,034	$103,666	$107,717	$124,220	$132,580
Shareholders Funds ('000)	$64,405	$82,757	$84,937	$97,285	$107,194
Shareholders Funds Ratio	79%	80%	79%	78%	81%
Net Asset Backing per share ($)	$12.95	$16.64	$17.08	$19.56	$21.55

Consolidated Statement of Comprehensive Revenue and Expense

Year ended 30 June 2020

		2020 $ '000	2019 $ '000
Revenue			
Operating revenue	2A	12,355	10,484
Land sales		5,875	2,575
Other gains	2B	6,166	1,123
		24,396	14,182
Expenses			
Operating expenses		(5,598)	(3,903)
Cost of land sales		(3,655)	(1,573)
Employee benefits expense		(3,919)	(2,617)
Depreciation & amortisation	3A, 3B	(3,368)	(2,538)
Other losses	2B	(1,544)	-
Finance costs		(614)	(530)
		(18,698)	(11,161)
Net surplus/(deficit) before tax		**5,698**	**3,021**
Tax expense	4A	4,511	(692)
Net surplus/(deficit) after tax		**10,209**	**2,329**
Other comprehensive revenue & expense			
Revaluation of property, plant & equipment		-	11,725
Deferred tax		-	(1,455)
Total other comprehensive revenue & expense		-	10,270
Total comprehensive revenue & expense		**10,209**	**12,599**

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity

Year ended 30 June 2020

		Share Capital $ '000	Retained Earnings $ '000	Revaluation Reserves $ '000	Total $ '000
Opening Balance - 1 July 2018		14,860	23,192	46,885	84,937
Net profit/(loss) after tax		-	2,329	-	2,329
Other comprehensive income		-	-	10,270	10,270
Disposal of revalued property, plant & equipment		-	53	(53)	-
Total comprehensive income		-	2,382	10,217	12,599
Dividends paid to shareholder		-	(250)	-	(250)
Closing Balance - 30 June 2019	5A	**14,860**	**25,323**	**57,102**	**97,285**
Opening Balance - 1 July 2019		**14,860**	**25,323**	**57,102**	**97,285**
Net profit/(loss) after tax		-	10,209	-	10,209
Other comprehensive income		-	-	-	-
Disposal of revalued property, plant & equipment		-	-	-	-
Total comprehensive income		-	10,209	-	10,209
Dividends paid to shareholder		-	(300)	-	(300)
Closing Balance - 30 June 2020	5A	**14,860**	**35,232**	**57,102**	**107,194**

The accompanying notes form part of these financial statements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Consolidated Statement of Financial Position

As at 30 June 2020

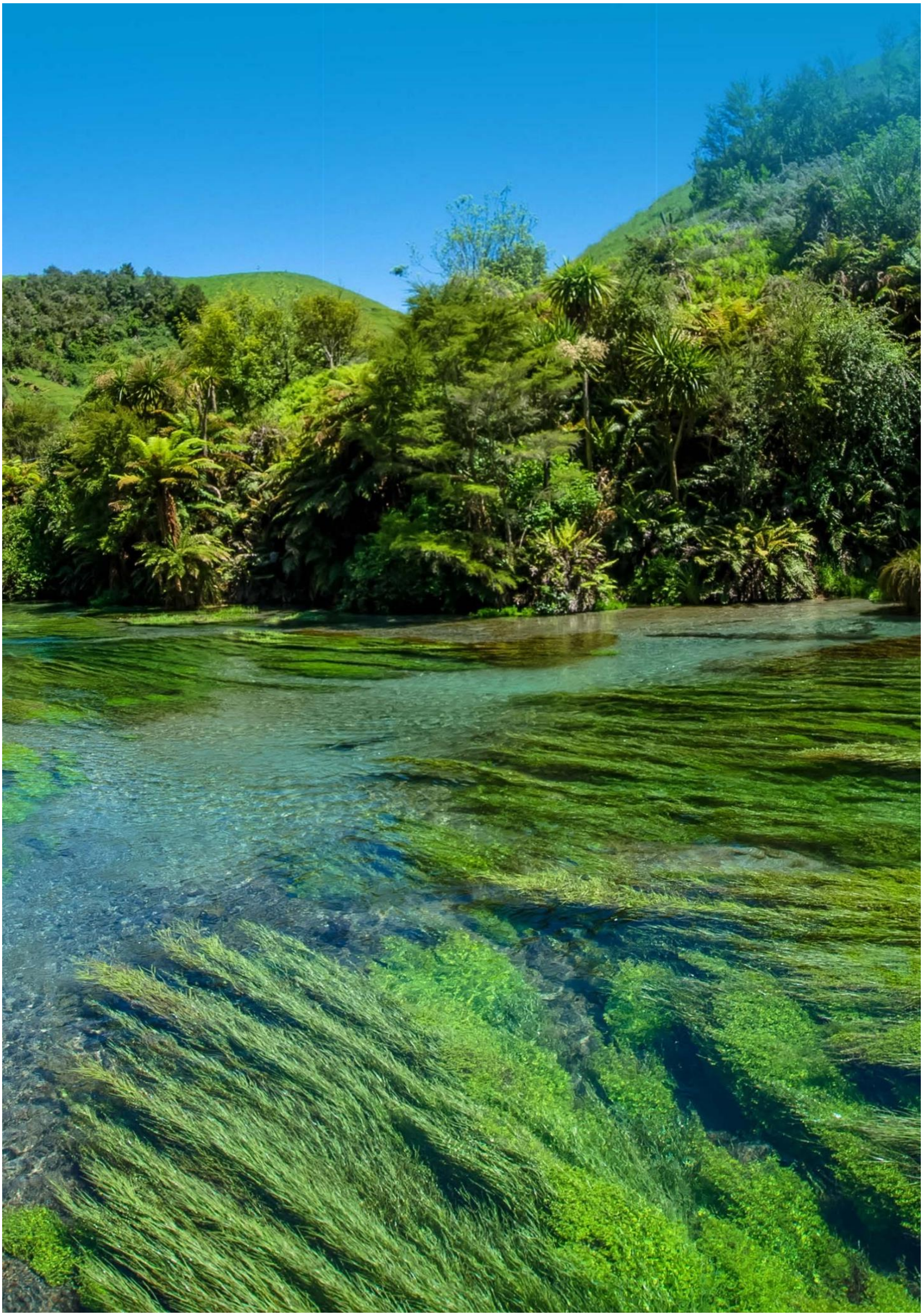
		2020 $ '000	2019 $ '000
Current Assets			
Cash and cash equivalents	5B	629	811
Trade and other receivables		564	1,322
Inventories		115	110
Development property	3C	9,409	10,858
		10,717	**13,101**
Non Current Assets			
Property, plant and equipment	3A	95,262	92,830
Investment property	3D	25,376	17,132
Intangible & other non-current assets	3B	1,225	1,157
		121,863	**111,119**
Total Assets		**132,580**	**124,220**
Current Liabilities			
Trade and other payables	4B	2,680	3,089
Employee entitlements		388	382
Provisions		-	632
Borrowings	5B	15,888	96
		18,956	**4,199**
Non Current Liabilities			
Provisions		1,396	-
Borrowings	5B	1,739	14,410
Deferred tax liability	4A	3,295	8,326
		6,430	**22,736**
Total Liabilities		**25,386**	**26,935**
Net Assets		**107,194**	**97,285**
Equity			
Share capital		14,860	14,860
Retained earnings		35,232	25,323
Revaluation reserves	5A	57,102	57,102
Total Equity		**107,194**	**97,285**

Consolidated Statement of Cash Flows

Year ended 30 June 2020

		2020 $ '000	2019 $ '000
Operating activities			
Receipts from operations		19,135	13,152
Payments to suppliers and employees		(10,104)	(6,251)
Payments for construction of development property		(1,616)	(3,198)
Payment of interest		(588)	(530)
Payment of income taxes		(636)	(863)
Net cash from/(used in) operations		**6,191**	**2,310**
Investing activities			
Receipts from sale of property, plant and equipment		5	606
Purchases of property, plant & equipment		(6,473)	(2,499)
Purchases of investment properties		(2,108)	(46)
Purchases of intangible assets		(118)	(122)
Acqusition of business combination		(500)	(549)
Net cash from/(used in) investment activities		**(9,194)**	**(2,610)**
Financing activities			
Receipts from/(repayments of) borrowings		3,121	1,339
Payments of dividends		(300)	(250)
Net cash from/(used in) financing activities		**2,821**	**1,089**
Net change in cash for the period		**(182)**	**789**
Add opening cash and cash equivalents balance		811	22
Closing cash and cash equivalents	**5B**	**629**	**811**

The accompanying notes form part of these financial statements



Notes to the Consolidated Financial Statements

Year ended 30 June 2020

Section One: About our annual report

This section of notes explains how we have prepared the financial statements and the general accounting policies we have applied. More specific policies and judgements we have made are explained in sections 2-4.

1A Reporting entity

Waikato Regional Airport Limited owns and operates Hamilton Airport. Its consolidated financial statements include the results of the Company and its wholly owned subsidiaries:

- Titanium Park Limited conducts commerical and industrial property development around the airport precinct.
- Hamilton & Waikato Tourism Limited is the Waikato region's official Regional Tourism Organisation and promotes the region as a business and leisure tourism destination both nationally and internationally.
- Waikato Regional Airport Hotel Limited commenced operating the Jet Park Hamilton Airport Hotel & Conference Centre in May 2019.

1B Basis of preparation

These consolidated financial statements have been prepared to comply with:

- Companies Act 1993
- Local Government Act 2002
- Airport Authorities Act 1966

The financial statements are prepared in accordance with Generally Accepted Accounting Practice, which in the case of the Group, is the Public Benefit Entity standards for Public Sector organisations that have less than $30 million annual expenditure ("Tier 2 PBE Standards"). The Group is eligible to apply Tier 2 PBE Standards, including the Reduced Disclosure Regime as it is not publicly accountable or large.

In preparing the consolidated finanical statements, transactions including revenues, expenses and loans occurring between entities and balances owing/receivable between entities at year end in the Group have been eliminated. Individual entity finanical statements are adjusted if necessary to comply with the Group's accounting policies upon consolidation.

The financial statements are presented in New Zealand Dollars and rounded to the nearest thousand dollars unless otherwise stated. The Group does not routinely enter into material transactions denominated in foreign currencies.

Except as disclosed in the Notes to the Financial statements, all amounts have been recorded using the historical cost measurement basis, on the assumption the Group is a going concern. All amounts presented are shown exclusive of GST, except for amounts owing or receivable where the balance is inclusive of GST.

1C Specific Accounting Policies

Accounting policies adopted by the Group and critical estimates and judgements made in preparing these financial statements are detailed further in the accompanying notes, in addition to those outlined below.

All accounting policies have been applied consistently to both the current reported period balances and the comparative amounts, and there have been no changes in accounting policies in the current year. Certain amounts have been restated from previous periods to comply with current year presentation.

Critical estimates and judgements

In preparing financial statements that comply with NZ IFRS RDR, the Company has made certain estimates and judgements which have a material impact on the amounts reported, in particular the valuation of Property, Plant & Equipment (Note 3A), impairment of Intangible Assets (Note 3B); cost of Development Property (Note 3C); valuation of investment Property (Note 3D); recognition and measurement of assets acquired in business combinations (Note 3E); and provisions and contingencies in respect of Infrastructure Development (Note 4C).

(i) Land Sales

Revenue from sale of development property is recognised when the significant risks and rewards of ownership have passed to the purchaser. This ordinarily coincides with settlement by the purchaser. Upon recognising the sale of development property, the cost of that property and any transaction costs are expensed to net surplus/(deficit).

(ii) Employee benefit expense & Employee entitlements

Employee benefit expense includes all salaries, wages, any performance bonuses paid to staff and contributions to post-employment benefit schemes (e.g. Kiwi Saver). The Group's expense also includes PAYE income tax and other deductions made by the Group. Amounts owing to staff, and any deductions collected but not yet paid, are recognised within the Employee entitlements liability. All Employee entitlements including performance bonus schemes are expected to be settled in the next twelve months, so no discounting adjustment is made.

(iii) Finance Costs

Finance costs include interest incurred on borrowings and other similar charges. Finance costs are expensed except to the extend they relate to borrowings specifically incurred to finance construction of qualifying assets, in which case the finance costs are capitalised as part of the asset's cost. Qualifying assets typically take more than 6 months to construct. Upon completion of the asset construction, capitalisation of further finance costs ceases.

(iv) Trade and other receivables

Trade and other receivables are recorded at their expected realisable value, net of an allowance for balances where collection appears doubtful. Balances receivable by the Group are subject to a provision where there is material uncertainty around collection at 30 June 2020 of $53,000 (2019: nil).

(v) Inventory

Inventories include consumables for use in the Group's operations which are recorded at cost, and goods for re-sale in the Group's retail outlets which are recorded at lower of cost or net realisable value when it is identified the selling price will be less than their cost. There have been no material write downs of inventory in the current or previous period.

(vii) Impairment of non-financial assets

All assets not already recorded at fair value are reviewed for indicators of impairment when there are indicators that asset's value may not be recoverable. An impairment loss is recognsied when an asset's recoverable value is less than its current carrying value. Impairment losses are recognised in net surplus/(deficit) except to the extent a loss relates to a reduction in the fair value of an asset previously revalued through the Asset Revaluation Reserve, in which case the revaluation reserve is reduced. The recoverable value of an asset is the greater of its disposal value or value in use, being its depreciated replacement cost.

Notes to the Consolidated Financial Statements

Year ended 30 June 2020

Section Two: About our performance for the year

This section provides information about how we performed for the year including how we derived our revenue and earnings, and how we performed against our Statement of Intent.

2A Operating Revenue

Operating revenue from exchange transactions is recognised when the underlying goods or services have been provided to the customer. Rental income from property leased to customers by the Group is recognised on a straight line basis over the lease term. Amounts received from customers in advance of the underlying goods or services being delivered are deferred initially and recognised as a liability.

Revenue from non-exchange transactions arise when there is no obligation to deliver goods or services directly in return to the funding provider. Revenue is only deferred if there are other substantive performance obligations yet to be met or conditions to return unspent amounts to the funding provider.

	2020 $ '000	2019 $ '000
Aeronautical, landing and passenger charges	3,379	3,350
Leases, rentals and concessions	2,245	2,160
Carparking & retail	2,438	2,540
Hotel trading	1,970	282
Other	128	447
Total exchange revenue	**10,160**	**8,779**
Regional Tourism Organisation funding	1,631	1,705
Government grants	564	-
Total non-exchange revenue	**2,195**	**1,705**
Total operating revenue	**12,355**	**10,484**

2B Other gains/(losses)

		2020 $ '000	2019 $ '000
Other gains			
Gain on revaluation of investment property	3D	6,136	285
Gain on disposal of property, plant and equipment	3A	30	838
		6,166	**1,123**
Other losses			
Impairment expense		(1,484)	-
Loss on disposal of property, plant and equipment		(60)	-
		(1,544)	**-**

Notes to the Consolidated Financial Statements

Year ended 30 June 2020

2C Impact of COVID19 Pandemic

For the majority of the financial year all entities within the group had operated in line with expectations and were achieving substantially all of the performance measures set in their respective Statements of Intent. The global pandemic's impact was most significantly felt during the final quarter of the financial year with the following impacts on each entity:

Waikato Regional Airport Limited (Hamilton Airport)	During Alert Levels 4 and 3, airline services were suspended however the airport remained fully operational to receive medical, essential service and military flights. Scheduled services resumed under Alert Level 2 and by year end around 40% of pre-COVID services had resumed. The impact was a $1.6m shortfall against budget for the 3 month period in operating income attributable to the Airport due to an overall 80% decline in aeronautical activity for the same period.
Titanium Park Limited	There were no material impacts to the current year trading results however certain future property contracts have been cancelled.
Hamilton & Waikato Tourism	A number of promotional events and campaigns did not proceed due to suspension of both domestic and international travel during Alert Levels 4 and 3. This resulted in a reduction in income from industry partners by $80,000.
Waikato Regional Airport Hotel Limited (Jet Park Hotel Hamilton Airport)	During Alert Level 4 the Hotel facility was contracted to the Ministry of Health as an isolation facility and the hotel remained open under Alert Level 3 to service essential service travellers. Despite this, the general down turn and restrictions on tourism resulted in a 60% decline in trading revenue for the period.

All entities were eligible for the Government COVID19 Employer Wage Subsidy and during the period $564,000 of income was recognised in respect of this scheme.

As a result of the pandemic there were no material additional operating expenses incurred however there were some savings in fixed operating costs due to cost saving initatives implemented by the Group during the period and variable operating costs due to the downturn in activity. There were no additional liabilities, commitments or contingencies incurred at 30 June 2020 as a result of cost saving initiatives being implemented.

At the time of issuing these financial statements the Group has not identified any material risk to its ability to continue as a going concern. Due to the effects of the pandemic on the tourism industry being expected to last for up to 24-36 months, it is expected the Group will not likely return net profits after tax in the coming periods, however it will be able to maintain positive operating cash flows inclusive of interest and tax obligations due to the diversity of its income streams. The Group is also in the process of renewing its banking facilities which include an increase in available borrowing facilities to $30 million.

While trading had resumed and recovered positively by 30 June for most areas of the Group, the Group expects the impact of the pandemic to be ongoing for at least 24-36 months based on predictions for the global tourism industry. The medium-term down turn in trading outlook has resulted in the Group assessing and testing its assets for impairment.

- Property, plant and equipment items that were not already independently revalued at 30 June 2020 were assessed for impairment by considering prices for similar assets achieved in post-COVID market transactions where available and considering whether assets will be utilised in the normal course of business going forward or whether they are now obsolete. By 30 June 2020, certain capital projects had been suspended resulting in provisions for impairment being recorded against these projects as it is uncertain if or when they will resume.
- Certain Intangible assets arising from business combinations were recognised on the basis of assumptions around future cash flows driven by tourism activity in the Airport and Hotel businesses. Where it was estimated the carrying value of these assets would not likely be recovered based on the reduced outlook for tourism over the next 24-36 months, the assets were deemed to be impaired.
- Development property was assessed for impairment by considering price evidence for commerical and industrial land achieved in post-COVID market transactions. In this regard no impairment was identified however due to the cancellation of certain future property contracts, costs incurred in relation to development for these contracts have been fully impaired.
- The downturn in trading outlook for the Group and industry as a whole led to increases in provisions for obsolecence of inventory and bad and doubtful accounts receivable collections.

Impairment and other losses in the recoverability of the Group's assets arising from these assessments is summarised below:

		2020 $ '000	2019 $ '000
Impairment Expense			
Property, plant & equipment	3A	(1,186)	-
Intangible assets	3B	(165)	-
Development property		(66)	-
Accounts Receivable		(53)	-
Inventories		(14)	-
Total Impairment Expense		**(1,484)**	-

2D Our performance against our financial targets set in our Statement of Intent (Our Statement of Service Performance)

	2020			2019		
	Actual $ '000	Target $ '000	Met	Actual $ '000	Target $ '000	Met
Earnings performance targets						
Net surplus/(deficit) after tax	(1,003)	1,200	×	615	127	✓
Earnings before tax, interest, depreciation & amortisation (EBITDA) excl Land Sales	2,838	4,000	×	3,964	3,400	✓
Earnings before tax, interest, depreciation & amortisation (EBITDA) incl Land Sales	5,058	6,000	×	n/a	n/a	n/a
Percentage of non-landing charges to total revenue (at least)	73%	60%	✓	68%	74%	×
Land Sales	5,875	7,000	×	n/a	n/a	n/a
Interest coverage ratio	4.6	4.0	✓	7.5	4.0	✓
Cash flow and funding performance targets						
Net operating cash flow excl Land sales	1,932	2,500	×	2,310	1,900	✓
Net debt (less than)	16,998	25,000	✓	13,695	18,000	✓
Shareholder value performance targets						
Shareholder funds to total assets (at least)	81%	65%	✓	78%	65%	✓
Net profit after tax, interest and revaluations to total assets	4.6%	1.3%	✓	2.0%	0.1%	✓
Net profit after tax, interest and revaluations to total shareholder funds	5.7%	1.0%	✓	2.0%	0.1%	✓

All earnings and profitability financial performance targets exclude the effect of land sales (and land cost of sales) and revaluation gains and losses recognised in net surplus/(deficit) after tax unless otherwise stated. Refer Note 2C for further details around the impact of COVID19 on the Group's ability to meet its performance targets.

2D Our performance against our financial targets set in our Statement of Intent (Our Statement of Service Performance)

Performance Target	Comment	Met	
		2020	2019
Facilitate health & safety meetings every 2 months with representatives from each company department.	Health & Safety committee meetings are undertaken on a monthly basis	✓	✓
Zero WorkSafe notifiable accidents/ injuries.	There were no notifiable incidents in either 2019 or 2020	✓	✓
Independently review and audit the health and safety system each year.	An independent audit of the Group's health and safety framework was undertaken and all recommendations were implemented	✓	✓
To achieve airport certification standards required by the Civil Aviation Authority (CAA) as evidenced by CAA audit reports.	The airport continues to meet all relevant CAA certification standards	✓	✓
Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events).	There have been no incidences of scheduled flights being operationally impacted by controllable events	✓	✓
Facilitate noise management meetings every 4 months in accordance with the noise management plan.	Regular meetings have been facilitated every 4 months	✓	✓

2D Our performance against our financial targets set in our Statement of Intent (Our Statement of Service Performance)

Performance Target	Comment	Met 2020	Met 2019
Titanium Park Limited			
Finalise subdivision plans for the 4th Stage of Titanium Park's Central Precinct	Plans were finalised and construction commenced during the year.	✓	n/a
Develop a masterplan for Titanium Park's Northern Precinct and prepare a private plan change submission to Waipa District Council	The masterplan was completed however the project was halted due to the Group's financial constraints arising from COVID19.	✗	n/a
Hamilton & Waikato Tourism			
Achieve 5% growth in visitor nights and visitor expenditure (as measured by key MBIE Tourism statistics)	Growth in these metrics were on track for the year until the travel restrictions imposed due to COVID19 effectively halted Tourism.	✗	n/a
Jet Park Hotel Hamilton Airport (Waikato Regional Airport Hotel Limited)			
Complete a refurbishment program (both internally and externally) that will allow the hotel to be accredited to a Qualmark 4 Star standard	Extensive refurbishment work was undertaken and the property gained Qualmark 4 Star and Silver Enviro accreditations	✓	n/a

Item 7

Attachment 1

Notes to the Consolidated Financial Statements

Year ended 30 June 2020

Section Three: About our assets

This section provides information about the assets we own, how much they are worth and how we value and report them on an ongoing basis.

3A Property, Plant and Equipment

Classes of Asset

Property plant and equipment comprises the following classes of assets:

- Land owned by the Group for use in its own operations or retained for strategic purposes
- Buildings owned by the Group for use in its own operations or retained for strategic purposes
- Airport infrastructure, including runways, taxiways, apron areas, reticulated systems, internal roading and carparking
- Other plant and equipment, including motor vehicles, general plant and equipment, computer & IT equipment and furnishings

Initial recognition

Items of property, plant and equipment are recognised initially at cost. Assets under construction (work in progress) are recognised at cost and are not depreciated until available for use.

Subsequent measurement

- Land is revalued to fair value determined from market based evidence of similar land.
- Buildings and Airport infrastructure are revalued on a depreciated replacement cost basis except for the Airport Hotel & Conference Centre building which is valued on a market value basis.

Valuations are undertaken when the Group estimates there has been a material change in fair value, and at least every 5 years. All valuations are undertaken by independent, professional valuers with experience in the types of assets the group owns. Telfer Young Waikato undertake land valuations (last valuation: 2019), Beca Valuations Limited undertake all building and aeronautical infrastructure (last valuations: buildings 2019, infrastructure 2016), except for the Airport Hotel & Conference Centre Hotel Buildings which are valued by Jones Lange LaSalle (last valuation: 2020).

Changes in fair value are recognised within Other comprehensive revenue & expense except where a revaluation results in a carrying value below the asset's cost, in which case decreases below cost are recognised in net surplus/(deficit) for the period.

Depreciation

Except for land, the cost or valuation of all items of property, plant and equipment are depreciated over their estimated useful lives on a straight line basis

- Buildings - 4-59 years
- Airport infrastructure - 4-79 years
- Other plant and equipment - 2-50 years

Disposals

Upon disposal of an asset, any gain or loss arising between the disposal proceeds and carrying value is recognised in net surplus/(deficit). Any revaluation reserve attributable to the asset is transferred directly to retained earnings.

3A Property, Plant and Equipment (continued)

		Land	Buildings	Airport Infrastructure	Other Plant & Equipment	Total
		$ '000	$ '000	$ '000	$ '000	$ '000
Cost/Valuation						
Cost/Valuation at 1 July 2018		36,206	18,864	22,665	4,952	82,687
Additions		3,448	3,501	935	1,138	9,022
Disposals		(978)	-	-	(13)	(991)
Revaluation		6,530	4,077	-	-	10,607
Cost/Valuation at 30 June 2019		45,206	26,442	23,600	6,077	101,325
Cost/Valuation at 1 July 2019		45,206	26,442	23,600	6,077	101,325
Additions		1,117	3,565	755	1,113	6,550
Disposals		-	(13)	-	(555)	(568)
Revaluation		-	-	-	-	-
Cost/Valuation at 30 June 2020		46,323	29,994	24,355	6,635	107,307
Depreciation						
Accumulated Depreciation 1 July 2018		-	(788)	(3,018)	(3,484)	(7,290)
Depreciation Expense		-	(397)	(1,574)	(367)	(2,338)
Disposals		-	-	-	13	13
Revaluation		-	1,120	-	-	1,120
Accumulated Depreciation 30 June 2019		-	(65)	(4,592)	(3,838)	(8,495)
Accumulated Depreciation 1 July 2019		-	(65)	(4,592)	(3,838)	(8,495)
Depreciation Expense		-	(690)	(1,621)	(558)	(2,869)
Disposals		-	3	-	502	505
Revaluation		-	-	-	-	-
Impairment Expense	2C	-	(1,186)	-	-	(1,186)
Accumulated Depreciation 30 June 2020		-	(1,938)	(6,213)	(3,894)	(12,045)
Carrying Value						
30 June 2019		45,206	26,377	19,008	2,239	92,830
30 June 2020		**46,323**	**28,056**	**18,142**	**2,741**	**95,262**

At 30 June 2020, airport infrastructure of $497,000 (2019: $252,000), other plant & equipment $250,000 (2019: $401,000) and buildings of $13,000 (2019: $500,000) remained under construction and were not in use or depreciated.

Included in additions for the year ended 30 June 2019 is $2,855,000 of buildings and $1,800,000 of land re-classified from Investment property. Additions also include $58,000 of Other plant & equipment acquired under business combinations (2019: $205,000)

Additions of land for the year ended 30 June 2019 also include $423,000 of land reclassified from development property.

3B Intangible and other assets

Intangible and other assets comprise:

- Aeronautical designations are consents issued by local authorities that provide regulatory protection for the Group to undertake acitivities such as extend the airport runway and install approach lighting on neighbouring properties. Assets are recognised initially at the cost obtaining consent from the local authorities, and amortised on a straight line basis over the period of the consents which are between 10 and 15 years (between 1 and 6 years remaining).
- Other intangibles have arisen primarily from the acquisition of other business around the airport. They reflect the benefit to the Group of acquiring these businesses with standing contracts and customers and are amortised on a straight line basis over the length of the remaining lives of the contracts which are normally up to 3-6 years. During the year ended 30 June 2020 $606,000 (2019: $272,000) of other intangible assets were recognised in the business combination transaction.
- Other assets that are recognised initially at the cost of acqusition and amortised on a straight line basis over the expected life of the underlying asset.

		Designations $ '000	Other Intangibles $ '000	Other Assets $ '000	Total $ '000
Cost					
Cost at 1 July 2018		1,394	-	184	1,578
Additions		-	394	-	394
Disposals		-	-	-	-
Cost at 30 June 2019		1,394	394	184	1,972
Cost at 1 July 2019		1,394	394	184	1,972
Additions		-	732	-	732
Disposals		-	-	-	-
Cost at 30 June 2020		1,394	1,126	184	2,704
Amortisation					
Accumulated Amortisation 1 July 2018		(497)	-	(119)	(616)
Amortisation Expense		(163)	(27)	(9)	(199)
Disposals		-	-	-	-
Accumulated Amortisation 30 June 2019		(660)	(27)	(128)	(815)
Accumulated Amortisation 1 July 2019		(660)	(27)	(128)	(815)
Amortisation Expense		(163)	(327)	(9)	(499)
Impairment Expense	2C	-	(165)	-	(165)
Disposals		-	-	-	-
Accumulated Amortisation 30 June 2020		(823)	(519)	(137)	(1,479)
Carrying Value					
30 June 2019		734	367	56	1,157
30 June 2020		**571**	**607**	**47**	**1,225**

3C Development Property

The Group, through its subsidiary Titanium Park Limited, undertakes the development of commercial and industrial property for sale. Land held by the Group for development is recognised initially at cost, or carrying value on the date it is designated for development if previously held as Investment property, or Property, plant and equipment. The balance of Development Property includes the costs of land plus costs such as roading and utilities infrastructure as well as consents from regulatory authorities needed to develop subdivisions and interest capitalised on borrowings used to finance development.

Development property is carried at the lower of its cost or its fair value less cost to sell. Fair value less cost to sell is determined by the Group based on contracted future sales prices, and estimates of market value of land not committed to future sale, taking into account sales activity of comparable properties and typical costs incurred in completing sales.

	2020 $ '000	2019 $ '000
Opening balance	10,858	9,157
Development costs capitalised	1,977	3,666
Reclassification to property, plant and equipment	-	(392)
Less cost of development property sold	(3,426)	(1,573)
	9,409	**10,858**

At 30 June 2020, the Group has 19.3 hectares (2019: 24.6 hectares) available for development and sale.

3D Investment property

Investment properties are land and buildings owned by the Group and held for capital appreciation, or primarily for earning rental income under operating leases. Investment properties are recognised initially at cost then subsequently measured to fair value annually, with changes recognised in net surplus/(deficit).

Fair value is determined by independent, professional valuers Telfer Young Waikato who have experience in the type of Investment properties owned by the Group. Valuations are dervied from comparable market data for similar properties.

		2020 $ '000	2019 $ '000
Opening balance		17,132	21,456
Acquisitions & additions		2,108	46
Redesignation of investment property		-	(4,655)
Changes in fair value	2B	6,136	285
		25,376	**17,132**

During the year ended 30 June 2019, $4,655,000 of investment property was redesignated as property, plant and equipment due to it now being occupied by the Group.

3E Business Combination

On 27 September 2019, the Group completed the acquisition of the Mavis Lounge Airport Cafe business via its parent company Waikato Regional Airport Limited. The business was previously a tenant of the Airport. The Group employed all existing staff at that date and acquired assets/(liabilities) at their fair values as detailed below. The cafe, situated in the Airport passenger terminal, continued to trade under WRAL ownership while still using the Mavis Lounge name until May 2020 when it was rebranded to Propeller Airport Cafe.

The following assets/(liabilities) were acquired at their fair values

	2020 $ '000
Intangible assets	606
Property, plant & equipment	58
Inventories	10
Deferred tax asset arising on acqusition	(169)
Employee entitlements	(5)
Fair value of acquired assets and liabilities	**500**

As the consideration paid equalled fair value of assets and liabilities acquired, no goodwill arose on acquistion. The intangible asset recognised was assessed based on the incremetnal future cash flow benefit expected to WRAL from owning the business compared to being solely the income it would have received under the former lease agreement. The amortisation period of the asset was deemed to be 6 years, being the remaining period of the lease controlled by the vendor.

The business' trading was significantly impacted by COVID19 and for the period controlled by WRAL, it contributed a net deficit of $260,000 including $285,000 of depreciation, amortisation and impairment losses. Refer Note 2C for further information.

Notes to the Consolidated Financial Statements

Year ended 30 June 2020

Section Four: About our obligations and commitments

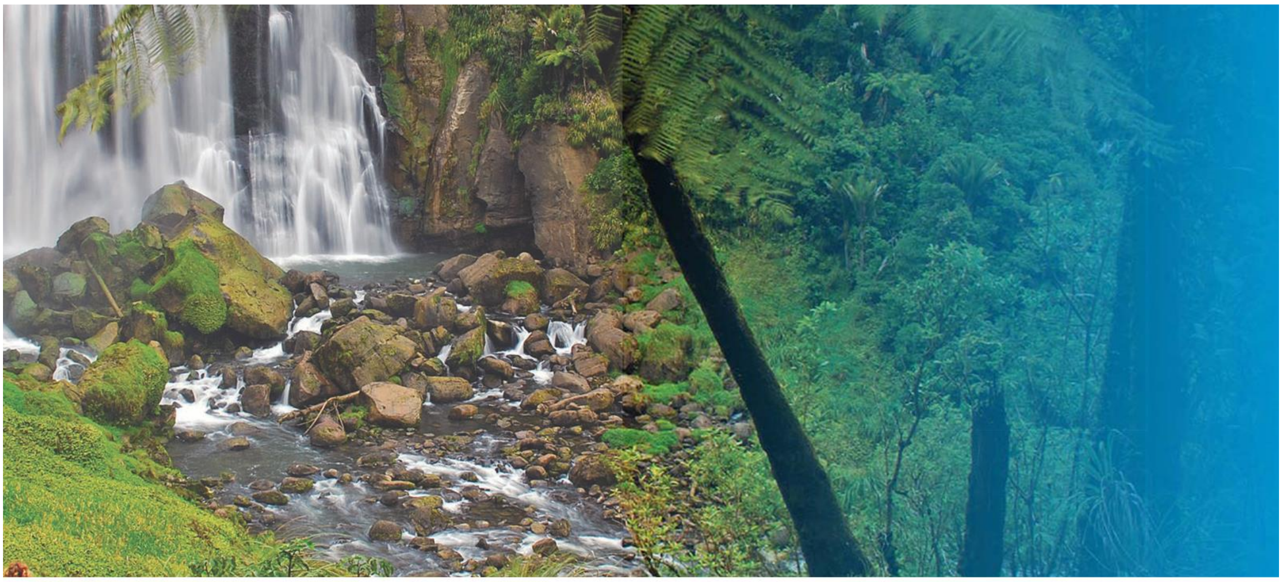
This section details the future liabilities and commitments we have, and how we have measured and calculated them.

4A Income Tax

Income tax is recognised in net profit/(deficit) except to the extent it relates to items recognised in equity. Income tax expense for the period comprises current tax and deferred tax. Current tax is the estimated income tax payable based on the current period taxable income, plus any adjustments to income tax payable in respect to prior periods.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax losses used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax losses used in the computation of taxable surplus. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.



Income Tax Expense		2020 $ '000		2019 $ '000
Net surplus/(deficit) before tax		5,698		3,021
Income tax at Group's tax rate	28.0%	(1,595)	28.0%	(846)
Effect of tax exempt income	(37.9%)	2,162	(3.6%)	109
Effect of expenditure non-deductible for tax purposes	22.2%	(1,263)	13.4%	(404)
Effect of change in legislation for building depreciation	(76.7%)	4,370	0.0%	-
Adjustments in respect of prior periods	0.1%	(5)	(0.9%)	26
Current tax expense	(64.4%)	3,669	36.9%	(1,115)
Effect of temporary differences (deferred tax expense)	(14.8%)	842	(14.0%)	423
Total tax expense	**(79.2%)**	**4,511**	**22.9%**	**(692)**

Movement in Deferred Tax Assets/(Liabilities)	1 July 2018	Recognised in Surplus	Recognised in OCRE	Business Combination	30 June 2019
Property, plant and equipment	(7,393)	392	(1,455)	54	(8,402)
Employee entitlements	28	(7)	-	-	21
Other	12	38	-	5	55
	(7,353)	**423**	**(1,455)**	**59**	**(8,326)**

Movement in Deferred Tax Assets/(Liabilities)	1 July 2019	Recognised in Surplus	Recognised in OCRE	Business Combination	30 June 2020
Property, plant and equipment	(8,402)	5,128	-	-	(3,274)
Employee entitlements	21	(13)	-	-	8
Other	55	85	-	(169)	(29)
	(8,326)	**5,200**	**-**	**(169)**	**(3,295)**

4B Trade and other payables

Trade and other payables are recorded initially at their fair value. All amounts are interest free, and expected to be settled in the next accounting period.

	2020 $ '000	2019 $ '000
Trade payables and accrued expenses	1,304	1,892
Revenue received in advance	664	714
Income tax payable	712	483
	2,680	3,089
	3,721	**1,938**

4C Infrastructure Development

Due to the nature of property development undertaken by the Group via its subsidiary Titanium Park Limited, the Group has a number of actual and potential future obligations to construct (or contribute to the construction of) water supply and reticulation, waste water facilities and roading infrastructure around the Hamilton Airport precinct.

Provisions are recognised at the Group's best estimate of future costs in relation to commitments where a present obligation has arisen, discounted for the expected timing of the construction or contribution being made. The initial cost of a provision is capitalised as part of the asset to which it relates with subsequent changes in the provision due to discounting reflected in net surplus/(deficit).

	2020 $ '000	2019 $ '000
Opening balance	632	632
Additional obligations and commitments capitalised	743	-
Provision utilised	(5)	-
Other changes recognised in net surplus/(deficit)	26	-
	1,396	**632**

During the year ended 30 June 2020, the Group was able to extend certain consents by up to 5 years meaning it could defer $632,000 of obligations that were previously classified liabilities at 30 June 2019. Accordingly, these obligations have been classified as non-current liabilities at 30 June 2020.

Contingent liabilities are recognised where there is less certainty about the timing, amount or likelihood of a future commitment, and when no present obligation exists. The Group's best estimate of the potential future commitment is disclosed where practicable, but not included within its balance sheet.

Contingent liabilities	2020 $ '000	2019 $ '000
Waipa District Council – water supply upgrade contribution	502	502
NZTA State Highway 21 – intersection upgrade contribution	unknown	unknown

The estimate of costs in relation to the NZTA State Highway 21 Intersection cannot be reliably estimated as the eventual intersection design is dependent on future traffic flow and generation which are outside the control of the Group.

4D Commitments

At 30 June 2020, the Group had capital commitments of $851,000 (2019: $1,071,000)

4E Events subsequent to balance date

There have been no material events subsequent to balance date.

Notes to the Consolidated Financial Statements

Year ended 30 June 2020

Section Five: About how we are funded and our shareholder value

This section gives information about our shareholders including their shareholdings and how their interest in the Group has grown in value.

5A Equity

Share Capital

The shareholding of Waikato Regional Airport Limited at 30 June 2020 was:

	Ordinary Shares	Percentage
Hamilton City Council	2,486,752	50.0%
Waipa District Council	777,110	15.6%
Waikato District Council	777,110	15.6%
Matamata Piako District Council	777,110	15.6%
Otorohanga District Council	155,422	3.2%
	4,973,504	**100.0%**

There were no changes in shareholding during the year (2019: none). All shares are fully paid and carry equal rights to vote and share the net assets of the Company. The shares have no par value, nor any fixed dividend rights.

Asset Revaluation Reserve

The accumulated, unrealised gains in asset revaluation are accumulated in the Asset revaluation reserve and are attributable the following asset classes:

	2020 $ '000	2019 $ '000
Land	34,712	34,712
Buildings	7,832	7,832
Airport Infrastructure	14,558	14,558
	57,102	**57,102**

5B Cash and Borrowings

Cash and cash equivalents comprise cash on hand and bank accounts held with reputable retail banks in New Zealand. This balance also includes overdraft facilities used for working capital purposes and set off facilities between account balances among Group entities.

Borrowings are longer term debt facilities held with retail banks in New Zealand used to finance capital and investment requirements.

Borrowings	2020 $ '000	2019 $ '000
Current portion - due within 12 months	15,888	96
Non-current portion - due between 12 and 24 months	1,739	12,671
Non-current portion - due between 24 and 36 months	-	1,739
Total drawn borrowing facilities	**17,627**	**14,506**
Undrawn bank overdraft facilities	1,050	1,050
Undrawn term borrowing facilities	10,203	6,494
Total unutilised borrowing and overdraft facilities	**11,253**	**7,544**

The weighted average interest rate on borrowings at year end was 3.58% (2019: 4.07%). All borowings and overdraft facilities are held with the Bank of New Zealand and are secured by way of a general security agreement and mortgages over certain land, buildings, investment properties.

Notes to the Consolidated Financial Statements

Year ended 30 June 2020

Section Six: Corporate Governance and Management

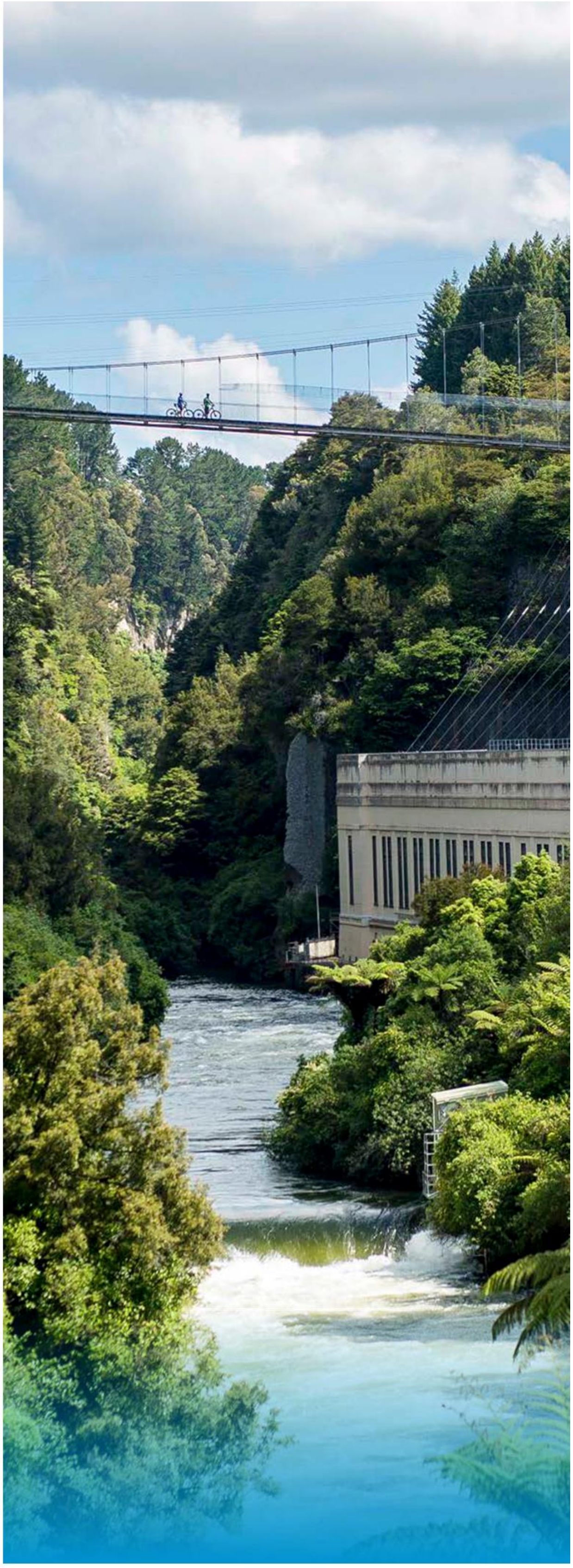
Section Six provides details about remuneration provided to the Group's Directors and Key Management Personnel, as well as details of transactions that took place with related parties

6A Related parties

The following transactions took place with entities and individuals related to the Group

	2020 $ '000	2019 $ '000
Remuneration		
Directors	187	219
Number of directors	9	11
Key management personnel	959	1,001
Number of personnel (full time equivalent)	6	6
Other		
Transactions in which directors declared an interest	152	199

Transactions carried out between the Group and its related parties arise from interests declared by directors. These transactions were for purchases of IT-related goods and services in the normal course of the Group's business.



6B Directors Holding Office

Directors Holding Office	Director Fees	
	2020 $ '000	2019 $ '000
Waikato Regional Airport Limited		
John Spencer CNZM (Chair, resigned 30 April 2019)	-	38
Barry Harris (Chair, appointed 1 March 2019)	48	13
Annabel Cotton	29	30
Carlos Da Silva	29	30
Margaret Devlin	29	30
Titanium Park Limited		
Margaret Devlin (Chair) - (2019: 4 months)	-	6
Carlos Da Silva - (2019: 4 months)	-	6
Graham Dwyer - (2019: 4 months)	-	6
Waikato Regional Airport Hotel Limited (incorporated 9 April 2019: 3 months)		
John Spencer CNZM (Chair, resigned 30 April 2019)	-	-
Barry Harris (Chair)	-	-
Annabel Cotton	-	-
Carlos Da Silva	-	-
Margaret Devlin	-	-
Hamilton & Waikato Tourism		
Annabel Cotton - Chair	18	18
Simon Douglas (retired December 2019)	6	12
Steven Gow (appointed January 2019)	12	6
Richard Leggat (appointed January 2019)	12	6
Mark Morgan	-	-
Don Scarlet (retired December 2018)	-	6
Karleen Turner Puriri (retired December 2019)	6	12

From 1 November 2018, the Directors of the Parent Company (WRAL) became the Directors of Titanium Park Limited under a common Board of Directors. From this point forward, the Directors were no longer separately remunerated by Titanium Park Limited. The common Board of Directors also included Waikato Regional Airport Hotel Limited from April 2019; the Directors receive no seperate remuneration from this entity.

In addition to Director Fees paid, Margaret Devlin receieved payment for other advisory services of $3,000 (2019: $8,000) and Graham Dwyer $41,000 during the 2019 financial year only. Annabel Cotton received $5,000 (2019: $5,000) for Chairing the Group's Audit & Risk Committee.

6C Employee Remuneration

The numbers of employees outlined below received remuneration including salaries and performance bonuses exceeding $100,000:

	2020	2019
$330,000-$339,999	-	1
$260,000-$269,000	1	-
$190,000-$199,999	-	1
$180,000-$189,999	1	-
$170,000-$179,999	1	1
$150,000-$159,999	1	-
$140,000-$149,999	-	1
$100,000-$109,999	-	1

6D Auditor

Pursuant to the Local Government Act 2002, Audit New Zealand is the auditor of the Group on behalf of the Auditor General. Audit New Zealand were paid $139,000 for the audit of the Group and subsidiary financial statements (2019: $109,000).

Corporate Directory

Directors	Barry Harris (Chairman) Annabel Cotton Carlos Da Silva Margaret Devlin
Registered Office	Hamilton Airport Terminal Airport Road RD2 Hamilton 3282
Telephone	07 848 9027
Website	www.hamiltonairport.co.nz
Social Media	Facebook Instagram Linkedin
Bankers	Bank of New Zealand
Solicitors	Ellice Tanner Hart
Auditors (on behalf of the Auditor General)	Audit New Zealand

Attachment 1

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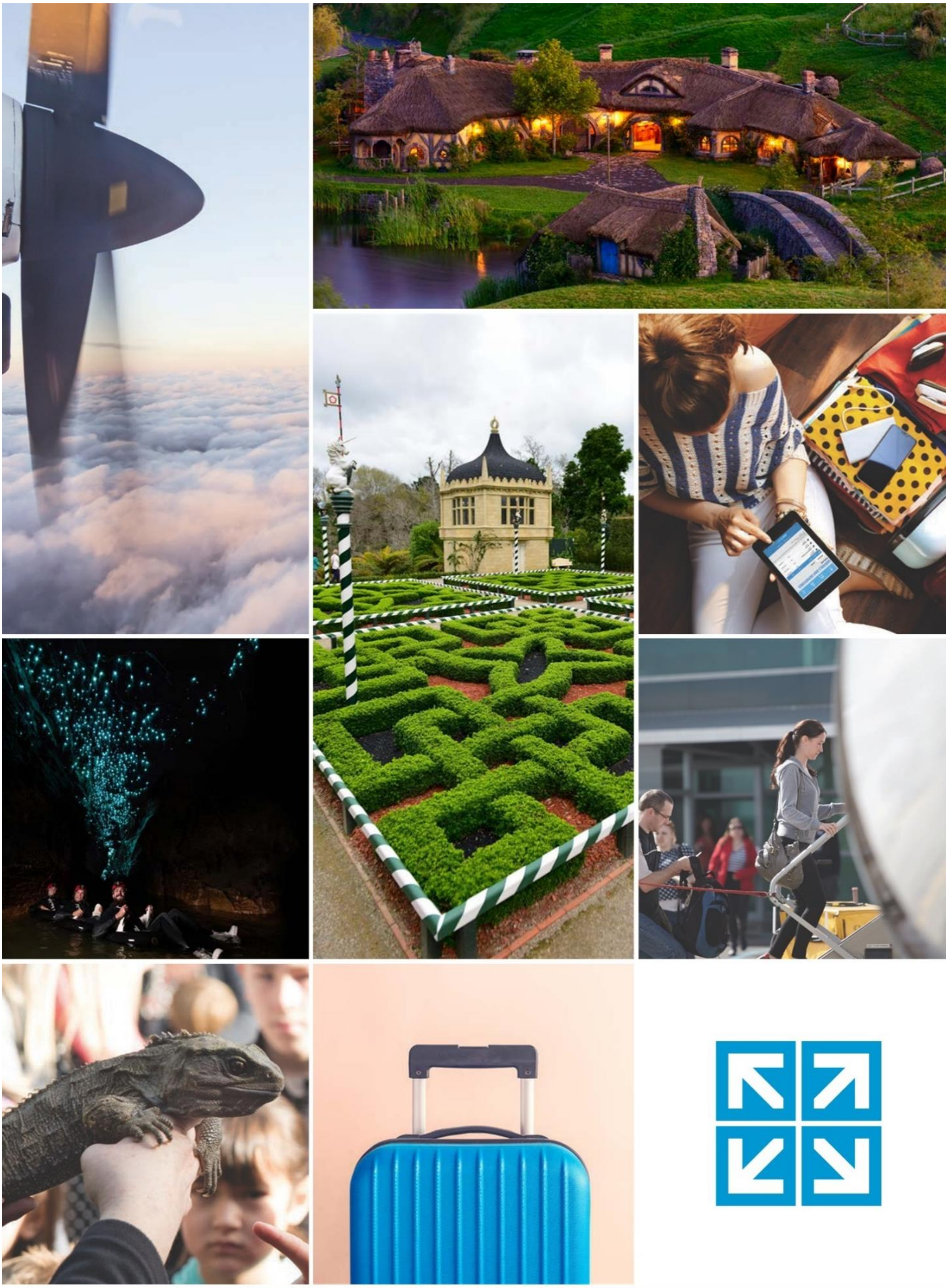

Council Report

Item 8

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Candice Swanepoel	**Authoriser:**	Blair Bowcott
Position:	Business Performance Accountant	**Position:**	Executive Director Special Projects
Report Name:	Waikato Innovation Growth Ltd, New Zealand Food Innovation (Waikato) Ltd Annual Report 30 June 2020 and Letter of Expectation		

Report Status	*Open*

Purpose - *Take*

1. To inform the Economic Development Committee on the Annual Report of Waikato Innovation Growth Ltd (WIGL) and its subsidiary, New Zealand Food Innovation (Waikato) Ltd (NZFIW) to 30 June 2020, and the Letter of Expectation 2021/22.
2. Stuart Gordon (Chief Executive) and Barry Harris (Chair) of WIGL, will present a verbal report at the meeting.
3. The Annual Report, Audit Opinion and Letter of Expectation is attached to this report.

Staff Recommendation - *Tuutohu-aa-kaimahi*

4. That the Economic Development Committee:
   a) receives the report;
   b) approves the WIGL Letter of Expectation 2021/22; and
   c) delegates authority to the Chair of the Economic Development Committee to sign the WIGL Letter of Expectation 2021/22.

Background - *Koorero whaimaarama*

5. WIGL has a 70% shareholding in New Zealand Food Innovation (Waikato) Limited (NZFIWL), the remaining 30% is held by Callaghan Innovation.
6. NZFIW, which is 100% owned by WIGL, has a 11% shareholding in both Melody Dairies Limited Partnership and Melody Dairies GP Limited.
7. Audit NZ have completed their audit of WIGL and NZFIW. They expressed their unmodified opinion on 22 October 2020. Attachments 3 and 4 to this report.

Financial Considerations

8. NZFIW forecast a surplus net profit after tax (NPAT) of $0.4M for the 2020 financial year, however they ended with a deficit of ($0.1M). This was partly due to the impact of covid-19 on production. While production continued through the national lockdown period, as NZFIW was

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classified as part of the essential industry, production did slow. This affected customer orders during the last three months of the 2020 financial year resulting in a reduction of $0.2M.

9. The Melody Plant (Dryer 2) was expected to be completed by April 2020. Due to the national lockdown it was delayed by two months. This resulted in a two month delay in the budgeted Management fee and IP charge from NZFIW to Melody Dairies LP and a further reduction of $0.3M.

10. While NPAT is unfavourable to budget, NZFIW still reflects a cash surplus for the financial year and are well situated for sustainable growth.

11. NZFIW's non-current assets increased to $23.6M at 30 June 2020. Long term debt also increased by $0.7M to close on $5.4M at 30 June 2020. This includes new lease liabilities.

12. The slower production brought on by the lockdown period did not continue into the new financial year. NZFIW has confirmed and booked 230 production days for 2020/21 and are working hard to pursue further opportunities to meet their budgeted 270 days of production. NZFIW remain in strong financial standing.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

13. Staff confirm that the matters in this report complies with the Council's legal and policy requirements.

14. The Letter of Expectation for 2021/22 remains aligned and consistent with the Council's expectations of the WIGL Group. We require the WIGL Group's Statement of Intent (SOI) in advance of the next financial year, in accordance with the Local Government Act 2002.

15. Director rotation considerations need to be completed for both WIGL and NZFIW. The Policy on Appointment and Remuneration of Board Members of COs, CCOs and CCTOs stipulates that, other than in exceptional circumstances, appointments are for two full and consecutive terms. We have communicated this to the Group and will disclose any changes at a future Economic Development Committee meeting.

16. The Hamilton City Council are planning a strategic review of NZFIW in line with a resolution of Council on 7 November 2017. This review has been delayed by covid-19, as well as other changes occurring within the MBIE. The review will not occur until 2021 at the earliest. Once we have confirmed the process for the review with Callaghan Innovation we will communicate the strategic review timeline to the Economic Development Committee.

Risks - *Tuuraru*

17. There are no known risks associated with the topics of this report.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

18. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

19. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below. The recommendations set out in this report are consistent with that purpose.

Significance and Engagement Policy - *Kaupapa here whakahira/anganui*

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Significance

20. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have a low significance.

Engagement

21. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - WIGL/ NZFIW - Letter of Expectation 2021/22

Attachment 2 - NZFIW - Annual Report 2020

Attachment 3 - NZFIW - Audit Opinion

Attachment 4 - WIGL - Annual Report 2020

Attachment 5 - WIGL - Audit Opinion

11 November 2020

Mr Barry Harris (Chair)
Waikato Innovation Growth Ltd and
NZ Food Innovation (Waikato) Ltd
9 Melody Lane
Ruakura
HAMILTON

Dear Barry

Letter of Expectation (2021/22) for:

- **Waikato Innovation Growth Ltd (WIGL), and its subsidiaries**
    - **New Zealand Food Innovation (Waikato) Ltd (NZ Food)**
    - **Melody Dairies Limited Partnership (Melody Dairies)**

This letter sets out Hamilton City Council's (HCC) expectations of Waikato Innovation Growth Ltd (Group) (WIGL) for consideration in WIGL's business planning and the development of its 2021/22 Statement of Intent (SOI).

1. Statement of Intent

In accordance with the Local Government Act 2002, HCC expects the Board of WIGL to submit its SOI in advance of the next financial year. Council reviews all WIGL reports and accountability documents and we request that your draft SOI 2021/22 be provided as early as possible and no later than 12 March 2021.

In developing the SOI, Council welcomes discussion on the content of this letter and the Board's views on its priorities in drafting the SOI 2021/22. We expect the Company's strategic direction, as set out in its current SOI 2020/21 will continue in the SOI 2021/22 and beyond.

HCC expects this Letter of Expectation (LOE) to give the Board a clear sense of WIGL's purpose, strategic direction and its business outcomes. This LOE serves as notice to the Board that it, the Board, accepts and understands its powers, responsibilities and obligations as placed upon it by its shareholders.

2. Principle of good governance relationships with shareholders, information flows and no surprises

As a local government entity largely funded by ratepayers, HCC, as shareholder, can face more rigorous scrutiny in the conduct of its business and performance of its investments than private shareholders.

It is vital the Board of WIGL directly, or through its Executive team, keeps the shareholder(s) fully informed on matters material to the business and/or of public interest.

Where there are commercial sensitivities involved WIGL should communicate directly with the Chief Executive of HCC or the shareholder representative (Executive Director Special Projects Blair Bowcott) and can have total confidence that those matters will be handled appropriately and in confidence.

Board members should be aware of the major transactions thresholds that apply for the company and each subsidiary. These may be set out in the shareholder agreement or the constitution, rather than solely in the Companies Act. It is also expected the Board will notify other major transactions even if not specified or required in the forgoing.

In summary with regards to major transactions:

- Major transactions should be signalled via the SOI and identified as such. Approval of an SOI is not approval of a major transaction by the shareholder.

- Council staff will engage with you to assist in preparing necessary reports for HCC to facilitate consideration by Elected Members.

- Adequate time should be allowed for HCC approval, once your board approves the transaction for presentation to the Shareholder, prior to signing contracts for the major transaction.

As a minimum each SOI must clearly state the company's definition of a major transaction and whether there are major transactions planned during the SOI period.

HCC takes health and safety matters seriously. To ensure that HCC and the group as a whole are adequately addressing health and safety risks, the draft SOI should outline how the Board manage and monitor health and safety risks.

3. HCC Shareholding

HCC has an intention to test the sale of its investment in WIGL (specifically NZ Food) from 2020 once certain legal obligations relating to the Callaghan shareholding in NZ Food conclude. HCC therefore expects the Board to take measures to protect and maximise the value HCC would receive from any sell down (up to and including 100%) in its investment.

The resolution passed by Council on 7 November 2017 is:

e) that the CE (of HCC) investigate and report to council an exit strategy for NZ Food Innovation (Waikato) Ltd noting that this strategy is unable to be executed until 2020 at the earliest due the legal contractual considerations.

4. Consistency with wider objectives of HCC

It is important that the Board and Executive of WIGL be familiar with the relevant strategies and policies of Council that have a bearing on the WIGL operation.

Section 59 of the Local Government Act sets out the principle objectives of a Council Controlled Organisation (CCO). HCC sets out its own objective, in accordance with s59 (1)(a), in the 2018-28 Ten-Year Plan through Our Community Outcomes, and this should be considered when developing the SOI.

- A City That Embraces Growth – HCC sees its investment in WIGL enabling business activity and economic growth. WIGL has a material impact upon the city's and the surrounding region's economic activity. HCC expect the Board to

Attachment 1

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report on those initiatives and outcomes where it has played a role in facilitating new business opportunities.

HCC also sets its own policy, in accordance with Section 57 of the Local Government Act which requires that a local authority adopt a policy that sets out an objective and transparent process for the appointment and remuneration of Board Members of a CO, CCO and CCTO.

HCC will activate and monitor this policy and, as per its terms of reference, has the power to approve the appointment and remuneration of directors to the Boards of the CO, CCO, CCTO.

HCC Officers will advise the CCOs as to the HCC's strategic direction, requirements of Statements of Intent and other relevant matters.

5. HCC Aspirations for WIGL and its subsidiaries

Council considers the following specific objectives and aspirations apply:

- **Core operation** – operate in full accordance with the terms of its agreements with third parties, lease and conditions as per relevant statutory requirements.

- **Diversification of revenue** – the Board should preserve its capacity to diversify its business base to add value to the WIGL operation.

- **Continue to develop and grow manufacturing revenues** – maximise utilisation and revenue diversification on the spray dryer facilities to ensure that the Callaghan investment requirements are achieved for NZ Food, the 10% investment in Melody Dairies aligns and supports the NZ Food activities, and that both subsidiaries are profitable.

- **Payment of Dividends** – subject to Board strategy, HCC expects a dividend from its investment in WIGL if possible and sustainable. Where no dividend is paid, HCC expects any trading surpluses to be invested back into the business or offset debt at the Board's direction. This will be a matter for ongoing review.

We recognise the significant achievements of WIGL over the last year including the essential work carried out during the national lockdown period due to covid-19, and the mitigation of significant delays to the Melody Diary project. We thank you for your diligence on behalf of Hamilton City Council and the company.

If you have any queries or comments, please don't hesitate to contact Tracey Musty, Financial Controller on 07 838 6544, or myself on 07 838 6519.

Yours sincerely

Ryan Hamilton
Chair
Economic Development Committee
Hamilton City Council

NEW ZEALAND FOOD INNOVATION (WAIKATO) LIMITED

Annual Report 2020

FOODWAIKATO

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DIRECTORY
As at 30 June 2020

Nature of Business	Development and operating of a pilot spray dryer in the Waikato Region	
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Registered Office	Waikato Innovation Park Ruakura Lane Hamilton 3216	
Authorised Capital	210 Ordinary Shares	
Directors	Barry Harris Earl Rattray David Stanley Peter Hobman Matthew Kenny	
Shareholders	Waikato Innovation Growth Limited	147 Ordinary Shares
	Callaghan Innovation	63 Ordinary Shares
		210
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240	
Bankers	BNZ 354 Victoria Street Hamilton	
Solicitors	Tompkins Wake 430 Victoria Street Hamilton	
IRD Number	105-220-731	

ANNUAL REPORT

For the Year Ended 30 June 2020

Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for New Zealand Food Innovation (Waikato) Limited for the year ended 30 June 2020.

Auditor

An auditor has been appointed.

For and on behalf of the Board

Director 22 October 2020

Director 22 October 2020

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2020

		Group $000		Company $000	
	NOTE	2020	2019	2020	2019
Income					
Revenue	4	8,195	9,589	8,195	9,589
Cost of sales		(1,298)	(2,957)	(1,298)	(2,957)
Gross profit		**6,897**	**6,632**	**6,897**	**6,632**
Share of profit/(loss) from associates	17	(12)	(7)	-	-
Covid-19 government wage subsidy	5	77	-	77	-
Sale of consents	5	-	1,610	-	1,610
Cost of consents	5	-	(395)	-	(395)
Expenses					
Operating expenses		(3,007)	(2,745)	(3,003)	(2,745)
Lease payments	26	-	(23)	-	(23)
Personnel costs	6	(2,518)	(2,023)	(2,518)	(2,023)
Depreciation	8	(992)	(1,187)	(992)	(1,187)
Audit fees	7	(50)	(40)	(42)	(35)
Directors fees		(173)	(161)	(173)	(161)
Bad and doubtful debts		(50)	-	(50)	-
Other gains and losses	10	(10)	(47)	(10)	(47)
Write-down of inventories		-	(30)	-	(30)
Total expenses		**(6,800)**	**(6,256)**	**(6,788)**	**(6,251)**
Finance income	9	-	1	-	1
Finance costs	9	(297)	(223)	(297)	(223)
Net finance costs		**(297)**	**(222)**	**(297)**	**(222)**
Profit/(loss) before tax		**(135)**	**1,362**	**(111)**	**1,374**
Subvention payment received/(paid)		(28)	(65)	(28)	(65)
Income tax	11	43	(28)	40	(30)
Profit/(loss) for the year, net of tax		**(120)**	**1,269**	**(99)**	**1,279**
Other comprehensive income					
Gain/(loss) on property revaluation		-	2,160	-	2,160
Income tax on other comprehensive income		-	(605)	-	(605)
Total other comprehensive income, net of tax		**-**	**1,555**	**-**	**1,555**
Total comprehensive income for the year		**(120)**	**2,824**	**(99)**	**2,834**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2020

Group	NOTE	$000 Share capital	$000 Revaluation reserve	$000 Retained earnings	$000 Total equity
Balance as at 1 July 2018		**7,333**	**3,788**	**52**	**11,173**
Total comprehensive income					
Profit for the year		-	-	1,269	1,269
Other comprehensive income for the year		-	1,555	-	1,555
Total comprehensive income for the year		**-**	**1,555**	**1,269**	**2,824**
Balance as at 30 June 2019		**7,333**	**5,343**	**1,321**	**13,997**
Balance as at 1 July 2019		**7,333**	**5,343**	**1,321**	**13,997**
Total comprehensive income					
Profit for the year		-	-	(120)	(120)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**(120)**	**(120)**
Balance as at 30 June 2020		**7,333**	**5,343**	**1,201**	**13,877**

Company	NOTE	$000 Share capital	$000 Revaluation reserve	$000 Retained earnings	$000 Total equity
Balance as at 1 July 2018		**7,333**	**3,788**	**52**	**11,173**
Total comprehensive income					
Profit for the year		-	-	1,279	1,279
Other comprehensive income for the year		-	1,555	-	1,555
Total comprehensive income for the year		**-**	**1,555**	**1,279**	**2,834**
Balance as at 30 June 2019		**7,333**	**5,343**	**1,331**	**14,007**
Balance as at 1 July 2019		**7,333**	**5,343**	**1,331**	**14,007**
Total comprehensive income					
Profit for the year		-	-	(99)	(99)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		**-**	**-**	**(99)**	**(99)**
Balance as at 30 June 2020		**7,333**	**5,343**	**1,232**	**13,908**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTE	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
ASSETS					
Non-current assets					
Related parties loans	22	12	26	25	28
Investment in associates	17	3,604	2,619	-	-
Investment in subsidiaries	18	-	-	3,623	2,626
Property, plant and equipment	19	19,554	20,016	19,554	20,016
Right of use assets	21	377	-	377	-
Assets under construction		10	40	10	40
Intangible asset	20	1	1	1	1
Total non-current assets		**23,558**	**22,702**	**23,590**	**22,711**
Current assets					
Cash and cash equivalents	13	175	82	175	82
Inventories	14	350	1,483	350	1,483
Trade and other receivables	15	810	915	808	915
Accrued income		7	-	7	-
Prepayments		106	102	106	102
Total current assets		**1,448**	**2,582**	**1,446**	**2,582**
Total assets		**25,006**	**25,284**	**25,036**	**25,293**
EQUITY AND LIABILITIES					
Equity					
Share capital	12	7,333	7,333	7,333	7,333
Revaluation reserve	12	5,343	5,343	5,343	5,343
Retained earnings		1,201	1,321	1,232	1,331
Total equity		**13,877**	**13,997**	**13,908**	**14,007**
Non-current liabilities					
Deferred tax liabilities	11	2,184	2,238	2,188	2,240
Deferred income	23	2,204	2,487	2,204	2,487
Term loans	24	4,675	4,274	4,675	4,274
Other loans	25	310	350	310	350
Lease liabilities	26	384	-	384	-
Provisions	27	172	168	172	168
Total non-current liabilities		**9,929**	**9,517**	**9,933**	**9,519**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (Continued)

		Group $000		Company $000	
	NOTE	2020	2019	2020	2019
Current liabilities					
Payables and accruals	16	438	716	433	713
Short term employee entitlements		233	268	233	268
Deferred income	23	289	296	289	296
Other loans	25	240	490	240	490
Total current liabilities		**1,200**	**1,770**	**1,195**	**1,767**
Total liabilities		**11,129**	**11,287**	**11,128**	**11,286**
Total equity and liabilities		**25,006**	**25,284**	**25,036**	**25,293**

The accompanying notes form part of these financial statements.

Director **Barry Harris**
22 October 2020

Director **Peter Hobman**
22 October 2020

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2020

		Group $000		Company $000	
	NOTE	2020	2019	2020	2019
Cash flow from operating activities					
Receipts from customers		7,908	9,440	7,908	9,440
Payments to suppliers and employees		(6,208)	(7,358)	(6,208)	(7,358)
Interest received		-	1	-	1
Interest paid		(275)	(245)	(275)	(245)
Tax payments		69	(16)	69	(16)
Subvention payment received/(paid)		(28)	(65)	(28)	(65)
GST (net)*		16	(163)	16	(163)
Net cash from operating activities	30	**1,482**	**1,594**	**1,482**	**1,594**
Cash flow from investing activities					
Purchase of property, plant and equipment		(476)	(177)	(476)	(177)
Purchase of assets under construction		(4)	(25)	(4)	(25)
Investment in assocaite		(997)	(1,016)	-	-
Investment in subsidiary		-	-	(997)	(1,016)
Net cash from/(used in) investing activities		**(1,477)**	**(1,218)**	**(1,477)**	**(1,218)**
Cash flow from financing activities					
Proceeds from borrowings		12,820	2,040	12,820	2,040
Repayment of borrowings		(12,709)	(2,600)	(12,709)	(2,600)
Repayment of lease liabilites		(23)	-	(23)	-
Net cash from/(used in) financing activities	31	**88**	**(560)**	**88**	**(560)**
Net increase/(decrease) in cash and cash equivalents		**93**	**(184)**	**93**	**(184)**
Cash and cash equivalents at 1 July		82	266	82	266
Cash and cash equivalents at 30 June	13	**175**	**82**	**175**	**82**

**The GST (net) component of operating activities reflects the net GST transactions with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.*

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

1. REPORTING ENTITY

New Zealand Food Innovation (Waikato) Limited (the "Company") is a company domiciled and incorporated in New Zealand under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 9th October 2013. The Company's parent entity is Waikato Innovation Growth Limited and the ultimate parent entity is Hamilton City Council.

The financial statements of New Zealand Food Innovation (Waikato) Limited are for the year ended 30 June 2020. The financial statements were authorised for issue by the Board of Directors on the 22 October 2020. The owners or others do not have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Company have been prepared in accordance with the requirements of the Companies Act 2013 and the Local Government Act 2002. New Zealand Food Innovation (Waikato) Limited is a for-profit entity.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ("NZ IFRS RDR"), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions.

New and amended standards adopted this year

- NZ IFRS 16 - Leases

In the current year, the Group has applied NZ IFRS 16 Leases (as issued by the IASB in January 2016). NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard deals with the recognition, measurement, presentation and disclosure of leases and replaces NZ IAS 17 Leases (NZ IAS 17).

The new standard introduces a single model for lessees which recognises all leases on the balance sheet through an asset representing the right to use the leased item during the lease term and a liability for the obligation to make lease payments. This removes the distinction between operating and finance leases and aims to provide users of the financial statements relevant information to assess the effect that leases have on the balance sheet, income statement and cash flows of the reporting entity. One of the key judgement in applying the new requirements relates to the assessment of whether an option to extend or terminate the lease contract will be exercised. Lessor accounting remains largely unchanged from NZ IAS 17 for the Group.

The Group reviewed leases where the Group is the lessee and these leases primarily relate to land and infrastructure leases.

The Group intends to use the modified retrospective approach with the right of use (ROU) asset being equal to the lease liability as at commencement date for all existing leases at 1 July 2019.

The ROU assets are subsequently depreciated using the straight line method over the shorter of the estimated lives of the ROU assets or the remaining estimated lease term. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within property, plant and equipment. The lease liabilities are initially measured at the present value of the unpaid lease payments at commencement date, discounted using a discount rate.

The discount rates used are the Group's incremental borrowing rate (IBR). The Group's IBR will be the average of the IBR rates obtained from financial institutions for each asset type based on terms similar to the lease term and for similar assets.

The Group will be applying the following practical expedients when applying the new lease standard NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred.

- The use of a single discount rate to a portfolio of leases with similar characteristics
- Not recognising ROU assets and liabilities for leases with less than 12 months of lease term.
- Not recognising ROU assets and liabilities if the leased asset is consider a low value asset.

The estimated impact of adopting NZ IFRS 16 from the period 1 July 2019 is shown below:

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 4.61%.

	$000
Operating lease commitment at 30 June 2019	416,916
Adjustments on transition	-
Adjusted undiscounted operating lease commitment as at 1 July 2019	416,916
Discounted using incremental borrowing rate as at 1 July 2019	388,887

	1 July 2019
Balance sheet	$000
Right of use assets	388,887
Lease liabilities	(388,887)
	-

We do not anticipate the net impact on the consolidated income statement to be material. The estimated impact of the changes under NZ IFRS 16 would be to increase net cashflow from operating activities and increase cash used by financing activities.

b. Preparation of Group Financial Statements

On the 22nd of December 2017 Waikato Innovation Growth Limited acquired 70% of New Zealand Food Innovation (Waikato) Limited voting equity due to the restructure of Waikato Innovation Park Limited. Waikato Innovation Park Limited transferred their 105 shares in New Zealand Food Innovation (Waikato) Limited to Waikato Innovation Growth Limited for $1.

The Group financial statements have been prepared as though the merged entities have always been under common control

c. Basis of Measurement

The financial statements have been prepared on an historical basis except for property, plant and equipment which is measured to fair value.

d. Functional and Presentational currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

e. Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following:

Note 19: Property, plant and equipment

Note 23: Deferred income

Note 27: Provisions

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

a. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intra-group balances, transactions, income and expenses are eliminated on consolidation.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant inter-company accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.

The Company holds 100% shares in its subsidiary NZFIW D2 LP Limited and there is no significant restriction on its ability to access or use assets or settle liabilities, of the group.

Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income. The Group's associate is:

- **Melody Dairies Limited Partnership. Melody Dairies Limited Partnership (MDLP) is 10% owned by NZFIW D2 LP Limited.** Significant judgement and assumptions have been used to determine that New Zealand Food Innovation (Waikato) Limited Group (NZFIW Group) has significant influence over MDLP. NZFIW Group has a representation on the board of directors of MDLP. Due to the existing Management Agreement between NZFIW Group and MDLP, NZFIW Group is considered providing essential technical information to MDLP. As a result, it has been determined that NZFIW Group has significant influence over MDLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures.

Melody Dairies Limited Partnership's principle place of business is 12 Melody Lane, Hamilton.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

• Melody Dairies GP Limited. Melody Dairies GP Limited (MDGPL) is 10% owned by New Zealand Food Innovation (Waikato) Limited (NZFIW). Significant judgement and assumptions have been used to determine that NZFIW has significant influence over MDGPL. NZFIW has a representation on the board of directors of MDGPL. As a result, it has been determined that NZFIW has significant influence over MDGLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures. MDGPL is dormant.

b. Revenue

The Company recognises revenue from the rendering of spray dryer services and from rendering of sales of goods. Spray drying is a method of producing a dry powder from a liquid provided by customers by quickly drying this with a hot gas. The Company enters into a contract with the customer for usage of the spray dryer for a fixed period of time and the consideration includes the daily charge rates and utility costs oncharged. The Company enters into a contract with the customer to produce product per minimum quantity specified.

The Company satisfies its performance obligations as services are rendered. Payment terms are the customer must pay the amount due or before the 20th day of the month of invoice. No obligations for returns, refunds and other similar obligation or types and warranties and related obligations are attached to the contracts.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of the service to a customer.

Judgements around the timing of satisfaction of performance obligations, the transaction price and amounts allocated to performance obligations are determined per the contracts.

The Directors are satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate as the performance obligations are satisfied at a point in time, and there is no contractual liability for unsatisfied performance obligations at year end.

The Group recognises sale of consents revenue when it transfers the control of the consents to the customer.

Interest income is accounted for on an accrual basis.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

c. Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

d. Foreign Currency Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

e. Leases

Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right of use assets are presented as a separate line in the consolidated statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

f. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

g. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

h. Trade and Other Receivables

Trade and other receivables are stated initially at fair value and subsequently measured at amortised cost, less expected credit losses. Bad debts are written off during the period in which they are identified. Trade and Other Receivables are classed as 'Trade and other receivables' financial instruments (Note 28).

i. Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks	10 years

j. Property, Plant & Equipment

Property, plant & equipment is measured at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a straight line basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer hardware	3-5 years
Office Equipment	20 years

The assets' residual values, depreciation method and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that it's carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

k. Work in progress

Work in progress is valued at cost.

l. Payables and accruals

Payables and accruals are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are recognised initially at fair value and subsequently at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

m. Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

n. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

o. Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and bonuses. Short-term employee entitlement obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

q. Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

4. REVENUE	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Revenue from contracts for the sale of goods	1,685	3,543	1,685	3,543
Revenue from contracts for the rendering of services	6,317	5,852	6,317	5,852
Revenue from the rendering of services	14	15	14	15
Deferred grant income	179	179	179	179
Total operating revenue	**8,195**	**9,589**	**8,195**	**9,589**

Timing of revenue recognition - At point in time.

5. OTHER INCOME	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Covid-19 government wage subsidy	77	-	77	-
Sale of consent	-	1,610	-	1,610
less cost of consent	-	(395)	-	(395)
Total other income	**77**	**1,215**	**77**	**1,215**

6. PERSONNEL COSTS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Salaries and wages	2,393	1,987	2,393	1,987
Defined contribution plan	48	36	48	36
Covid-19 government wage subsidy payment	77	-	77	-
Total personnel costs	**2,518**	**2,023**	**2,518**	**2,023**

Annual remuneration by band for employees	2020 Number	2019 Number
< $100,000	31	21
$100,000 - $109,999	2	-
$110,000 - $119,999	2	3
$120,000 - $129,999	-	1
$130,000 - $139,999	2	1
$140,000 - $149,999	1	-
$150,000 - $159,999	-	1
$160,000 - $169,999	1	-
Total Employees	**39**	**27**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

7. AUDIT FEES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Audit fee for 2019/20 year	41	-	33	-
Audit fee for 2018/19 year	9	33	9	28
Audit fee for 2017/18 year	-	7	-	7
Total audit fees	**50**	**40**	**42**	**35**

8. DEPRECIATION	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Property, plant and equipment depreciation	980	1,187	980	1,187
Right of use asset depreciation	12	-	12	-
Total depreciation	**992**	**1,187**	**992**	**1,187**

9. FINANCE COSTS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Finance income				
Interest income	-	1	-	1
Total finance income	**-**	**1**	**-**	**1**
Finance costs				
Bank fees	(14)	(5)	(14)	(5)
Interest on bank borrowings	(265)	(218)	(265)	(218)
Interest on lease liabilities	(18)	-	(18)	-
Total finance costs	**(297)**	**(223)**	**(297)**	**(223)**
Net finance costs	**(297)**	**(222)**	**(297)**	**(222)**

10. OTHER GAINS AND LOSSES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Net foreign exchange gain/(loss)	(9)	(31)	(9)	(31)
Loss on disposal of fixed assets	(1)	(16)	(1)	(16)
Total other gains and losses	**(10)**	**(47)**	**(10)**	**(47)**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

11. INCOME TAX	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Current tax				
Current year	-	(2)	-	(2)
Adjustment for prior years	(11)	24	(14)	24
	(11)	22	(14)	22
Deferred tax				
Current year	32	(44)	30	(46)
Adjustment for prior year	22	(6)	24	(6)
Total income tax expense recognised	**43**	**(28)**	**40**	**(30)**
The income tax expense for the year can be reconciled to the accounting profit as follows:				
Profit before tax	(135)	1,362	(111)	1,374
Income tax expense at 28%	38	(381)	31	(385)
Effect of income that is exempt from tax	-	451	-	451
Effect of expenses that are not deductible in determining taxable profit	(3)	(116)	(1)	(114)
Adjustment for prior year - subvention payment	8	18	8	18
Adjustment for prior year - other	-	-	2	-
Income tax expense recognised in profit or loss	**43**	**(28)**	**40**	**(30)**

Deferred tax balances

Group ($000)	**Opening Balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,930)	(74)	-	(3,004)
Provisions	(22)	5	-	(17)
Deferred income	712	(50)	-	662
Tax losses	2	173	-	175
Balance as at 30 June 2020	**(2,238)**	**54**	**-**	**(2,184)**

Group ($000)	**Opening Balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(5)	(17)	-	(22)
Deferred income	762	(50)	-	712
Tax losses	-	2	-	2
Balance as at 30 June 2019	**(1,583)**	**(50)**	**(605)**	**(2,238)**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

Deferred tax balances **Company ($000)**	**Opening Balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,932)	(49)	-	(2,981)
Provisions	(22)	5	-	(17)
Deferred income	712	(50)	-	662
Tax losses	-	148	-	148
Balance as at 30 June 2020	**(2,242)**	**54**	**-**	**(2,188)**

Company ($000)	**Opening Balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(5)	(17)	-	(22)
Deferred income	762	(50)	-	712
Balance as at 30 June 2019	**(1,583)**	**(52)**	**(605)**	**(2,240)**

	Group $000		**Company $000**	
12. EQUITY	**2020**	**2019**	**2020**	**2019**
Share capital				
Ordinary shares (105 shares)				
Balance 1 July	7,334	4,334	7,334	4,334
Transfer of preference shares	-	3,000	-	3,000
less uncalled shares	(1)	(1)	(1)	(1)
Total Ordinary shares	**7,333**	**7,333**	**7,333**	**7,333**
Preference shares (45 shares)				
Balance 1 July	-	3,000	-	3,000
Transfer of shares to Ordinary shares	-	(3,000)	-	(3,000)
less uncalled shares	-	-	-	-
Total Preference shares	**-**	**-**	**-**	**-**
Total issued and called shares 30 June	**7,333**	**7,333**	**7,333**	**7,333**

Ordinary Shares

All ordinary shares carry equal voting rights and entitle the holder to participate in dividends, and the right to share in any surplus on winding up. The shares have no par value.

210 shares have been issued, 110 shares have been fully paid and 100 shares are uncalled.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

Revaluation Reserve	Group $000		Company $000	
	2020	2019	2020	2019
Property				
Opening balance	(25)	(168)	(25)	(168)
Revaluation	-	198	-	198
Income tax on revaluation surplus	-	(55)	-	(55)
Closing balance	**(25)**	**(25)**	**(25)**	**(25)**
Plant and equipment				
Opening balance	5,369	3,956	5,369	3,956
Revaluation	-	1,962	-	1,962
Income tax on revaluation surplus	-	(549)	-	(549)
Closing balance	**5,369**	**5,369**	**5,369**	**5,369**
Total revaluation reserve	**5,343**	**5,343**	**5,343**	**5,343**

This reserve relates to the revaluation of property, plant and equipment.

13. CASH AND CASH EQUIVALENTS	Group $000		Company $000	
	2020	2019	2020	2019
BNZ Bank account	175	82	175	82
Total cash and cash equivalents	**175**	**82**	**175**	**82**

The Company has an overdraft facility with BNZ with a limit of $250,000.

14. INVENTORIES	Group $000		Company $000	
	2020	2019	2020	2019
Goods in transit	-	395	-	395
Raw materials	350	1,086	350	1,086
Finished goods	-	2	-	2
Total inventories	**350**	**1,483**	**350**	**1,483**

The cost of inventories recognised as an expense during the year was $1,296,745 (2019: $2,956,168).

No inventory write-downs were recognised as an expense during the year (2019: $30,286).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

15. TRADE AND OTHER RECEIVABLES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Contract assets	769	763	769	763
Trade receivables	-	2	-	2
Provision for doubtful debt	(50)	-	(50)	-
Related parties receivables	80	24	80	24
Income tax receivable	9	91	9	91
Other receivables	2	35	-	35
Total trade and other receivables	**810**	**915**	**808**	**915**

16. PAYABLES AND ACCRUALS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Trade payables	318	633	318	633
Accruals	101	80	96	76
Other payables	19	4	19	4
Total payables and accruals	**438**	**717**	**433**	**713**

17. INVESTMENT IN ASSOCIATES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Melody Dairies Limited Partnership				
Interest held by the group	10%	10%	-	-
Opening balance	2,619	-	-	-
Additions during the year	997	2,626	-	-
Share of revenue and expenses	(12)	(7)	-	-
Balance 30 June	**3,604**	**2,619**	**-**	**-**
Melody Dairies GP Limited				
Interest held by the group	10%	10%	10%	10%
Balance 30 June	**-**	**-**	**-**	**-**
Total investment in associates	**3,604**	**2,619**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

18. INVESTMENT IN SUBSIDIARIES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Shares at cost				
NZFIW D2 LP Limited	-	-	3,623	2,626
Total investment in subsidiaries	**-**	**-**	**3,623**	**2,626**

19. PROPERTY, PLANT AND EQUIPMENT

Group $000	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2019				
Opening net book amount	3,450	15,422	27	18,899
Additions	12	144	8	164
Disposals	-	(20)	-	(20)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
Closing net book amount	**3,483**	**16,504**	**29**	**20,016**
As at 30 June 2019				
Cost or valuation	3,483	16,504	37	20,024
Accumulated depreciation	-	-	(8)	(8)
Net book amount	**3,483**	**16,504**	**29**	**20,016**
For the year ended 30 June 2020				
Opening net book amount	3,483	16,504	29	20,016
Additions	323	127	69	519
Disposals	-	(1)	-	(1)
Depreciation charge	(144)	(829)	(7)	(980)
Closing net book amount	**3,662**	**15,801**	**91**	**19,554**
As at 30 June 2020				
Cost or valuation	3,806	16,630	107	20,543
Accumulated depreciation	(144)	(829)	(16)	(989)
Net book amount	**3,662**	**15,801**	**91**	**19,554**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

Company $000	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2019				
Opening net book amount	3,450	15,422	27	18,899
Additions	12	144	8	164
Disposals	-	(20)	-	(20)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
Closing net book amount	**3,483**	**16,504**	**29**	**20,016**
As at 30 June 2019				
Cost or valuation	3,483	16,504	37	20,024
Accumulated depreciation	-	-	(8)	(8)
Net book amount	**3,483**	**16,504**	**29**	**20,016**
For the year ended 30 June 2020				
Opening net book amount	3,483	16,504	29	20,016
Additions	323	127	69	519
Disposals	-	(1)	-	(1)
Depreciation charge	(144)	(829)	(7)	(980)
Closing net book amount	**3,662**	**15,801**	**91**	**19,554**
As at 30 June 2020				
Cost or valuation	3,806	16,630	107	20,543
Accumulated depreciation	(144)	(829)	(16)	(989)
Net book amount	**3,662**	**15,801**	**91**	**19,554**

No valuation was completed in 2020. Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 26 February 2019. The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment.

There was no impairment in 2020 (2019: NIL). No borrowing costs were capitalised during the year (2019:NIL).

20. INTANGIBLE ASSETS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Cost - Trademark				
Balance 1 July	1	1	1	1
Additions	-	-	-	-
Amortisation	-	-	-	-
Balance 30 June	**1**	**1**	**1**	**1**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

21. RIGHT OF USE ASSETS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Property - Land				
Cost 1 July	389	-	389	-
Additions	-	-	-	-
Cost 30 June	**389**	**-**	**389**	**-**
Accumulated depreciation 1 July	-	-	-	-
Charge for the year	12	-	12	-
Accumulated depreciation 30 June	**12**	**-**	**12**	**-**
Carrying amount 30 June	**377**	**-**	**377**	**-**

New Zealand Food Innovation (Waikato) Limited leases land from Waikato Innovation Park Limited. The lease term is 33 years. The contract started 1 July 2018 and had renewal terms of 20+10+5.

22. RELATED PARTIES LOANS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
NZFIW D2 LP Limited	-	-	13	2
Waikato Innovation Growth Limited	12	26	12	26
Total related parties loans	**12**	**26**	**25**	**28**

New Zealand Food Innovation (Waikato) Limited is owned by Waikato Innovation Growth (70%) and Callaghan (30%). New Zealand Food Innovation (Waikato) Limited has paid operating costs on behalf of Waikato Innovation Growth Limited.

NZFIW D2 LP Limited is owned by New Zealand Food Innovation (Waikato) Limited (100%) The related parties amount relates to day-to-day expenses paid by New Zealand Food Innovation (Waikato) Limited on behalf of NZFIW D2 LP Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

23. DEFERRED INCOME	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Original grant	3,794	3,794	3,794	3,794
less deferred grant recognised in prior years	(1,253)	(1,074)	(1,253)	(1,074)
	2,541	**2,720**	**2,541**	**2,720**
Opening balance	2,541	2,720	2,541	2,720
less deferred grant recognised	(179)	(179)	(179)	(179)
Total deferred grant	**2,362**	**2,541**	**2,362**	**2,541**
Revenue received in advance	131	242	131	242
Total deferred income	**2,493**	**2,783**	**2,493**	**2,783**
Current portion	289	296	289	296
Non-current portion	2,204	2,487	2,204	2,487
Total deferred income	**2,493**	**2,783**	**2,493**	**2,783**

Deferred grant relates to government grants provided to develop the spray dryer facility (part of property, plant and equipment). The Deferred grant is written off over 20 and 25 years respectively for the spray dryer facility, being the estimated useful life of the assets.

24. TERM LOANS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
BNZ 92346126-03 loan	-	4,274	-	4,274
BNZ 92346126-04 loan	4,675	-	4,675	-
	4,675	**4,274**	**4,675**	**4,274**
Current portion	-	-	-	-
Non-current portion	4,675	4,274	4,675	4,274
Total term loan	**4,675**	**4,274**	**4,675**	**4,274**

Term loans have perfected security interest in all present and after acquired property of New Zealand Food Innovation (Waikato) Limited.

	2020		2019	
	Interest rate	*Maturity Date*	*Interest rate*	*Maturity Date*
BNZ 92346126-03 loan	-	-	5.07%	August 2021
BNZ 92346126-04 loan	4.44%	November 2022	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

25. OTHER LOANS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Bonds	550	840	550	840
Total other loans	**550**	**840**	**550**	**840**
Total current portion	240	490	240	490
Total non-current portion	310	350	310	350
Total other loans	**550**	**840**	**550**	**840**

26. LEASE LIABILITIES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Opening balance	389	-	389	-
Cash flows	(23)	-	(23)	-
Non-cash movement	18	-	18	-
Balance 30 June	**384**		**384**	
				-
Total lease liabilities	**384**	**-**	**384**	**-**

Amounts recognised in Statement of Comprehensive Income	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Expenses relating to short-term leases	58	-	58	-
Expenses relating to leases of low value assets	1	-	1	-
	59	**-**	**59**	**-**

Non-cancellable operating lease commitments as lessee are as follows:	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
No later than one year	23	23	23	23
Later than one year and no later than five years	93	93	93	93
Later than five years	278	301	278	301
	394	**417**	**394**	**417**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

27. PROVISIONS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Nu-Mega Ingredients (NZ) Limited contract				
Opening balance	-	196	-	196
Unused amounts reversed	-	(196)	-	(196)
Balance 30 June	-	-	-	-
Silo contracts				
Opening balance	168	160	168	160
On acquisition	-	-	-	-
Charge to profit or loss	4	8	4	8
Balance 30 June	**172**	**168**	**172**	**168**
Total provisions	**172**	**168**	**172**	**168**

NZFIW entered into a contract with the following customers, Central Dairy Goat, Spring Sheep Dairy, NZ Nutritional Goat and Maui Milk for the use of Silo 4 for five years and to each loan NZFIW $65,000 for the building of Silo 4 at the factory. NZFIW will reimburse the customers $43,333 on the 30th June 2022. Should the customer still be manufacturing at the FoodWaikato site beyond May 2022 the repayment will be made at the end of the year, that the customer stops manufacturing at Food Waikato. NZFIW has created a provision (discounted to present value) for $43,333 of the loan.

28. FINANCIAL INSTRUMENTS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Financial assets at amortised cost				
Cash and cash equivalents	175	82	175	82
Trade and other receivables	789	789	789	789
Related parties	25	28	25	28
Total financial assets at amortised cost	**989**	**899**	**989**	**899**
Financial liabilities at amortised cost				
Payables and accruals	433	713	433	713
Other loans	550	840	550	840
Term loans	4,675	4,274	4,675	4,274
Provisions	172	168	172	168
Total financial liabilities at amortised cost	**5,830**	**5,995**	**5,830**	**5,995**

The Group has: no financial liabilities classified at fair value through profit or loss; financial assets classified at fair value through profit or loss; or fair value through other comprehensive income.

Net gains or net losses on financial assets measured at amortised costs are recognised through the profit or loss and includes interest or dividend income.

Net gains or net losses on financial liabilities at amortised cost are recognised in the profit or loss and includes interest expense.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

29. CAPITAL COMMITMENTS

The following amounts have been committed to by the Company but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

As at 30 June 2020 New Zealand Food Innovation (Waikato) Limited has capital commitments of $1,143 to Combined Technologies Limited for the completion of an Attach to Lots software (2019: $9,848).

As at 30 June 2020 New Zealand Food Innovation (Waikato) Limited has capital commitments of $14,425 to Portacom for the purchase of a multipurpose unit (2019: NIL).

NZFIW D2 LP Limited has no capital commitments to Melody Dairies Limited Partnership for capital drawdown in 2020 (2019: $656,698).

	Group $000		Company $000	
30. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	**2020**	**2019**	**2020**	**2019**
Profit/(loss) for the year	**(120)**	**1,269**	**(99)**	**1,279**
Add/(less) non-cash items				
Sale of consent	-	(1,610)	-	(1,610)
Cost of consent	-	395	-	395
Interest - provisions	22	(23)	22	(23)
Bad and doubtful debt	50	-	50	-
Losses	1	16	1	16
Depreciation and amortisation	992	1,187	992	1,187
Share of associates (surplus)/deficit	12	7	-	-
Deferred income	(290)	(287)	(290)	(287)
Total non-cash items	**787**	**(315)**	**775**	**(322)**
Add/(less) movements in working capital				
Revenue received in advance	-	(15)	-	(15)
Accrued income	(7)	-	(7)	-
Trade debtors and other receivables	(61)	(17)	(63)	(17)
Prepayments	(4)	(184)	(4)	(184)
Income tax expense & subvention payment in profit/loss	(43)	28	(40)	30
Payables and accruals	(188)	16	(186)	13
Short term employee entitlements	(29)	(8)	(30)	(8)
Inventories	1,133	846	1,133	846
Related parties	14	(26)	3	(28)
Total movement in working capital	**815**	**640**	**806**	**637**
Net cash flow from operating activities	**1,482**	**1,594**	**1,482**	**1,594**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

31. RECONCILIATION OF FINANCING ACTIVITIES

Group $000	2019	Cash flows	Non-cash changes	2020
Financing activities				
Term loans	4,274	401	-	4,675
Other loans	840	(290)	-	550
Provisions	168		4	172
Lease liabilities	389	(23)	18	384
Total liabilities from financing activities	**5,671**	**88**	**22**	**5,781**

Group $000	2018	Cash flows	Non-cash changes	2019
Financing activities				
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)	-	840
Provisions	356	-	(188)	168
Total liabilities from financing activities	**6,030**	**(560)**	**(188)**	**5,282**

Company $000	2019	Cash flows	Non-cash changes	2020
Financing activities				
Term loans	4,274	401	-	4,675
Other loans	840	(290)		550
Provisions	168	-	4	172
Lease liabilities	389	(23)	18	384
Total liabilities from financing activities	**5,671**	**88**	**22**	**5,781**

Company $000	2018	Cash flows	Non-cash changes	2019
Financing activities				
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)	-	840
Provisions	356	-	(188)	168
Total liabilities from financing activities	**6,030**	**(560)**	**(188)**	**5,282**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

32. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

Callaghan Innovation

The Company made sales of $80,000 (2019: $80,004) to Callaghan Innovation for Business Development Manager services. No amount is outstanding at balance date (2019: NIL).

The Company has paid $470 (2019: $457) to Callaghan Innovation for Directors travel expense to board meetings. No amount is outstanding at balance date (2019: NIL).

Hamilton City Council

The Company's ultimate parent entity is Hamilton City Council. The Company paid $162,896 (2019: $131,720) to Hamilton City Council for trade waste. A balance of $45,649 inclusive is outstanding at balance date (2019: NIL).

Waikato Innovation Growth Limited

The Company has paid operating costs of $14,759 (2019: $86,759) on behalf of Waikato Innovation Growth Limited. No amount is outstanding at balance date (2019: NIL).

The Company has paid no expenses in 2020 (2019: $68,597) to Waikato Innovation Growth Limited for insurances.

New Zealand Food Innovation (Waikato) paid a subvention payment of $28,383 (2019: $64,773) to Waikato Innovation Growth Limited for the 2019 tax year.

NZFIW D2 LP Limited

In 2019 the Company made sales of $1,609,820 to NZFIW D2 LP Limited for consent costs in accordance with an agreement with NZFIW D2 LP Limited. No sales were made in 2020.

The Company has paid operating costs of $11,139 (2019: $1,786) on behalf of NZFIW D2 LP Limited. No amount is outstanding at balance date (2019: NIL).

The Company has paid $997,106 (2019: $1,016,361) to NZFIW D2 LP Limited for capital amounts for Melody Dairies Limited Partnership.

Melody Dairies Limited Partnership

Melody Dairies Limited Partnership has paid $137,292 (2019: $190,959) to New Zealand Food Innovation (Waikato) Limited for project management and have reimbursed $474,791 (2019: $302,460) for project costs paid by the Company previously. A balance of $79,716 inclusive is outstanding at 30 June 2020 (2019 $23,940).

The Company received on behalf of Melody Dairies Limited Partnership $77,326 from the Covid-19 government wage subsidy (2019: NIL).

Key Management Personnel Disclosure

Key management personnel compensation	2020: $620,826	2019: $560,227

Other

Stuart Gordon the CE of NZFIW is the CE of Waikato Innovation Park Limited which provides management services and ground lease to NZFIW. During the year Waikato Innovation Park Limited charged NZFIW $307,716 GST exclusive for these services (2019: $160,758). A balance of $27,780 inclusive is owing at 30 June 2020 (2019: $8,068).

Matt Kenny is a Director of New Zealand Food Innovation Auckland Limited which provides CRM and innovation network support. During the year New Zealand Food Innovation Auckland Limited charged the Company $3,044 GST exclusive for these services (2019: $3,676). A balance of $182 inclusive is owing at 30 June 2020 (2019: $182).

Matt Kenny is a Director of New Zealand Food Innovation (South Island) Limited. During the year New Zealand Food Innovation (South Island) Limited charged NZFIW $485 (2019: $408). No amount is outstanding at balance date (2019: NIL).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2020

33. CONTINGENCIES

No contingencies have been identified at balance date (2019: NIL).

34. COVID-19 IMPACT DISCLOSURES

On 11 March 2020, the World Health Organisation declared the outbreak of Covid-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was in lockdown at Alert Level 4 from 26 March to 27 April, and then remained in lockdown at Alert Level 3 until 13 May.

NZFIW was certified by MPI as an essential business during this period and therefore continued to operate albeit under enhanced tracking and social distancing regime.

After 13 May, NZFIW continued as normal. The effect on our operations is reflected in these financial statements, based on the information available to the date these financial statements are signed. There may be secondary implications that affect the NZFIW in the future due to the effect Covid-19 might have on customers in the medium term. However interviews with our key customers have disclosed to date no significant issues.

We have also disclosed in the financial statements our significant assumptions and judgements regarding the future potential impacts that may have a material impact on. These uncertainties might have a material impact in future.
The main impacts on the NZFIW financial statements due to Covid-19 are explained below:

- Revenue – Management and IP fee revenue from Melody Dairies LP was negatively affected by $234,195 because commissioning was delayed by three months due to Covid-19

- Operating expenses - NIL

- Impairment of tangible and intangible assets - an impairment assessment has been completed for tangible and intangible assets. The result of this assessment was future cash flows have forecasted to be the same as before Covid-19. Therefore, our assessment is a nil impairment.

PERFORMANCE TARGETS AND RESULTS

For the Year Ended 30 June 2020

The Company's prepares an annual Statement of Corporate Intent, which is approved by the Shareholders and incorporates financial and performance measure for the ensuing year. This is in accordance with section 64(5) of the Local Government Act 2002. The 2019/20 Statement of Corporate Intent was approved by Hamilton City Council.

Budget and actual results	**2020** Actual $000	**2020** Statement of Corporate Intent $000	**2019** Actual $000	**2019** Statement of Corporate Intent $000
EBITDA NZFIW	1,177	1,956	-	-
Revenue NZFIW	-	-	11,200	7,461
NZFIW Cash from operating activities	1,482	856	-	-
Capital expenditure	519	650	164	700
Investment in Melody Dairies	3,604	1,670		

Key objectives and actual results to 30 June 2020

Key objectives	Actual results
1. 284 days of product development production via the spray dryer contributing exceeding $60 million to the regional economy.	276 days of production via the spray dryer and exports from the spray dryer were estimated at $45.2 m. We estimate $218 m of capital investment has been made "on farm" as a result of the NZFIW spray dryer.
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2019/2020.	Over $32m of private capital was raise to establish Melody Dairies Limited Partnership spray dryer. The commissioning of the dryer was completed on the 30th June 2020.
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. $1.67 million will available within the company's own cash flow.	NZFIW purchased 6% of the shares in Melody Dairies Limited Partnership. It also obtained a further 5% through the intellectual property we contributed to build the plant.
4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.	The launch of infant formula for sheep milk was delayed to the 2020/21 year. However we were audited by Danone the largest infant formula seller internationally. This audit allowed Maui Milk to sell its products to Danone to produce infant formula.
5. Income receiving from managing Melody Dairies expects to amount to a net of $400k.	Covid -19 delayed the construction of Melody Dairies Limited Partnership by 2 months. This means the management fee payments were delayed to 1st July 2020. We did receive $297,000 of project management fee.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of New Zealand Food Innovation (Waikato) Limited's group financial statements and performance information for the year ended 30 June 2020

The Auditor-General is the auditor of New Zealand Food Innovation (Waikato) Limited Group (the Group). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 5 to 33, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 34.

In our opinion:

- the financial statements of the Group on pages 5 to 33:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards with Reduced Disclosure Requirements; and
- the performance information of the Group on page 34 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2020.

Our audit was completed on 22 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Group. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out in note 34 to the financial statements.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 4, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

WAIKATO INNOVATION GROWTH LIMITED

Annual Report 2020

Item 8

Attachment 4

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For the year ended 30 June 2020

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DIRECTORY
As at 30 June 2020

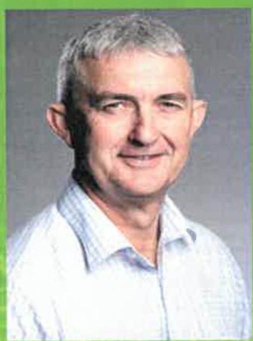
Nature of Business	Holding company
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216
Registered Office	Tompkins Wake 430 Victoria Street Hamilton 3204
Authorised Capital	4,000,100 Ordinary Shares
Directors	Barry Harris Earl Rattray David Stanley Peter Hobman
Shareholders	Hamilton City Council 4,000,100 Ordinary Shares
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240
Bankers	BNZ 354 Victoria Street Hamilton
Solicitors	Tompkins Wake 430 Victoria Street Hamilton
IRD Number	124-736-676

CHAIRMAN'S AND CHIEF EXECUTIVE'S ANNUAL REPORT

Major Milestones for the year include:

- Revenue for Food Waikato at $8,195,000 was less than last year of $9,589,000 by $1,394,000 due to NZFIW no longer producing its own infant formula base powder.
- Achievement of Group loss after tax of $111,000 compared with last year's profit of $1,295,000. Last year's profit included a $1,215,000 gain on selling the consent for building the new spray dryer to Melody Dairies LP.
- Food Waikato undertook 276 dryer days of manufacturing against a plan of 284.
- 309 tonnes of sheep milk manufactured at Food Waikato
- Manufacture of encapsulated Omega 3 and 6 powders under contract to Nu Mega of Australia.
- Under Food Waikato's management the Melody Dairies LP spray dryer was completed on budget at $53.8 m. This included the absorption of $249,000 of Covid -19 related costs. The spray dryer was completed on the 30th June. This was two and half months late with two of those months due to Covid-19.

Barry Harris
Chairman



Stuart Gordon
Chief Executive

Food Waikato contribution to the regional economy:

Food Waikato produced 1616 tonnes of product in the 2019-20 year at an export value of $45.2m. This means that an estimated $303 million of export sales have been manufactured in the eight years of its life. A survey of customers indicates they have invested $218 million in farms, genetics, and or production facilities over the last eight years.

Financial Performance:

The year ending June 2020 produced a reduced financial performance for Waikato Innovation Growth Limited group. Group Revenue decreased by 15% to $8,195,000 this year. This was a result of change in product mix with the switch from not producing our own Infant formula base to more contracted days on the dyer. Group Total Comprehensive loss for the year just ended was $111,000 compared to a $2,850,000 profit last year. The key differences are due to last year containing a net $1,555,000 revaluation of assets and a $1,215,000 profit from selling the consents for developing a spray dryer to Melody Dairies LP. The important Net Cash Flow from operating activities was a surplus of $1,482,000 this year. Food Waikato reduced its inventories carried by $1,133,000 during the year.

Board of Directors:

Given the unique role Food Waikato is performing as part of the New Zealand Food Innovation Network a Board with specialised skills governs Food Waikato. Barry Harris (chairman), Matt Kenny (Callaghan Innovation) (resigned July 2020), Peter Hobman, Earl Rattray and Dave Stanley comprise the Food Waikato board. The Board of Directors met formally six times through the year.

The Board also met key Stakeholders, the auditors (the Government Audit Office) and its bankers (the Bank of New Zealand). The Board has set up a series of best practice policies and monitors those policies and the company risk register to ensure compliance.

The Board takes seriously its ongoing obligation to ensure public safety and a safe working environment. Health and safety leadership is a priority for the Board.

Strategic Direction:

The Board of New Zealand Food Innovation Waikato through its Statement of Intent for the 2021 year has set out clear aspirations to grow the sheep milk industry. The 2020/21 financial year will be a difficult year as we transition some clients over to Melody Dairies and develop new clients in the space vacated. This is a difficult business model with the strategic aim to graduate our successful clients onto new plant while building relationships with new businesses and create new products. This is made even more difficult with Covid-19

Management:

The Food Waikato team had a good year and the Board thanks them for their dedication and achievements. Lead by our Chief Executive, Stuart Gordon, the team can be proud of the 2019/2020-year achievements, which mean we are now well placed for growth in the future. In particular Food Waikato's expansion of its capacity through Melody Dairies LP dryer under its management. Food Waikato now has critical mass and financial stability and is looking forward to its next growth stage.

ANNUAL REPORT

For the year ended 30 June 2020

Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for Waikato Innovation Growth Limited for the year ended 30 June 2020.

Auditor

An auditor has been appointed.

For and on behalf of the Board

____________	Director	22 October 2020
____________	Director	22 October 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	NOTE	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Revenue					
Revenue	4	8,195	9,590	-	-
Cost of sales		(1,298)	(2,957)	-	-
Gross profit		**6,897**	**6,633**	**-**	**-**
Share of profit/(loss) from associates	17	(12)	(7)	-	-
Covid-19 government wage subsidy	5	77	-	-	-
Sale of consent	5	-	1,610	-	-
Cost of consents	5	-	(395)	-	-
Expenses					
Operating expenses		(3,009)	(2,763)	(2)	(16)
Lease payments	26	-	(23)	-	-
Personnel costs	6	(2,518)	(2,017)	-	6
Depreciation	8	(992)	(1,187)	-	-
Audit fees	7	(63)	(55)	(13)	(15)
Directors fees		(173)	(161)	-	-
Bad and doubtful debts		(50)	-	-	-
Other gains and losses	10	(10)	(47)	-	-
Write down of inventories		-	(30)	-	-
Total expenses		**(6,815)**	**(6,283)**	**(15)**	**(25)**
Finance income		-	1	-	-
Finance costs		(297)	(227)	-	(4)
Net finance costs	9	**(297)**	**(226)**	**-**	**(4)**
Profit/(loss) before tax		**(150)**	**1,332**	**(15)**	**(29)**
Subvention payment received/(paid)		-	-	28	65
Income tax	11	39	(37)	(4)	(10)
Profit/(loss) for the year, net of tax		**(111)**	**1,295**	**9**	**26**
Other comprehensive income					
Gain/(loss) on property revaluation	19	-	2,160	-	-
Income tax on other comprehensive income	11	-	(605)	-	-
Total other comprehensive income, net of tax		**-**	**1,555**	**-**	**-**
Total comprehensive income for the year		**(111)**	**2,850**	**9**	**26**
Total profit/(loss) attributable to:					
Waikato Innovation Growth Limited		(75)	914	9	26
Non-controlling interest		(36)	381	-	-
Total comprehensive income attributable to:					
Waikato Innovation Growth Limited		(75)	2,003	9	26
Non-controlling interest		(36)	847	-	-

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

Group	NOTE	$000 Share capital	$000 Revaluation reserve	$000 Retained earnings	$000 Non-controlling interest	$000 Total equity
Balance as at 1 July 2018		4,000	3,402	371	3,353	11,125
Total comprehensive income						
Profit for the year		-	-	914	381	1,295
Other comprehensive income for the year		-	1,089	-	466	1,555
Total comprehensive income for the year		-	1,089	914	847	2,850
Balance as at 30 June 2019		4,000	4,491	1,286	4,199	13,975
Balance as at 1 July 2019		4,000	4,491	1,286	4,199	13,976
Total comprehensive income						
Profit for the year		-	-	(75)	(36)	(111)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(75)	(36)	(111)
Balance as at 30 June 2020		4,000	4,491	1,211	4,163	13,865

Company	NOTE	$000 Share Capital	$000 Revaluation reserve	$000 Retained earnings	$000 Non-controlling interest	$000 Total equity
Balance as at 1 July 2018		4,000	-	(1,248)	-	2,752
Total comprehensive income						
Profit for the year		-	-	26	-	26
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	26	-	26
Balance as at 30 June 2019		4,000	-	(1,222)	-	2,778
Balance as at 1 July 2019		4,000	-	(1,222)	-	2,778
Total comprehensive income						
Profit for the year		-	-	9	-	9
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	9	-	9
Balance as at 30 June 2020		4,000	-	(1,213)	-	2,787

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	NOTE	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
ASSETS					
Non-current assets					
Investment in subsidiaries	18	-	-	2,800	2,800
Investment in associates	17	3,604	2,619	-	-
Property, plant and equipment	19	19,554	20,016	-	-
Right of use assets	21	377	-	-	-
Assets under construction		10	40	-	-
Deferred tax assets	11	-	-	4	8
Intangible asset	20	1	1	-	-
Total non-current assets		**23,546**	**22,676**	**2,804**	**2,808**
Current assets					
Cash and cash equivalents	13	175	82	-	-
Inventories	14	350	1,483	-	-
Trade and other receivables	15	810	916	-	-
Accrued income		7	-	-	-
Prepayments		106	102	-	-
Total current assets		**1,448**	**2,583**	**-**	**-**
Total assets		**24,994**	**25,259**	**2,804**	**2,808**
EQUITY AND LIABILITIES					
Equity					
Share capital	12	4,000	4,000	4,000	4,000
Revaluation reserve	12	4,491	4,491	-	-
Retained earnings		1,211	1,286	(1,213)	(1,222)
Equity attributable to owners of the Company		**9,702**	**9,777**	**2,787**	**2,778**
Non-controlling interest		4,163	4,199	-	-
Total equity		**13,865**	**13,975**	**-**	**-**
Non-current liabilities					
Deferred tax liabilities	11	2,180	2,230	-	-
Deferred income	22	2,204	2,487	-	-
Term loans	24	4,675	4,274	-	-
Other loans	25	310	350	-	-
Lease liabilities	26	384	-	-	-
Provisions	23	172	168	-	-
Total non-current liabilities		**9,925**	**9,509**	**-**	**-**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (Continued)

	NOTE	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Current liabilities					
Payables and accruals	16	442	721	5	4
Short term employee entitlements		233	268	-	-
Deferred income	22	289	296	-	-
Other loans	25	240	490	-	-
Related parties loans	27	-	-	12	26
Total current liabilities		**1,204**	**1,775**	**17**	**30**
Total liabilities		**11,129**	**11,284**	**17**	**30**
Total equity and liabilities		**24,994**	**25,259**	**2,804**	**2,808**

The accompanying notes form part of these financial statements.

Director Barry Harris
22 October 2020

Director Peter Hobman
22 October 2020

STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

		Group $000		Company $000	
	NOTE	2020	2019	2020	2019
Cash flow from operating activities					
Receipts from customers		7,908	9,509	-	59
Payments to suppliers and employees		(6,208)	(7,400)	-	(42)
Interest received		-	1	-	-
Interest paid		(275)	(249)	-	(5)
Tax payments		41	(16)	-	-
GST (net)*		16	(163)	-	5
Net cash from operating activities	31	**1,482**	**1,682**	**-**	**16**
Cash flow from investing activities					
Purchase of property, plant and equipment		(476)	(177)	-	-
Proceeds from sale of property, plant and equipment		-	27	-	27
Purchase of assets under construction		(4)	(25)	-	-
Investment in associate		(997)	(1,016)	-	-
Net cash from/(used in) investing activities		**(1,477)**	**(1,191)**	**-**	**27**
Cash flow from financing activities					
Proceeds from borrowings		12,820	2,040	-	-
Repayment of borrowings		(12,709)	-	-	-
Repayment of lease liabilities		(23)	(2,800)	-	(128)
Net cash from/(used in) financing activities	29	**88**	**(760)**	**-**	**(128)**
Net increase/(decrease) in cash and cash equivalents		**93**	**(269)**	**-**	**(85)**
Cash and cash equivalents at 1 July		82	351	-	85
Cash and cash equivalents at 30 June	13	**175**	**82**	**-**	**-**

**The GST (net) component of operating activities reflects the net GST transactions with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.*

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

1. REPORTING ENTITY

Waikato Innovation Growth Limited (the "Company") is a company domiciled and incorporated in New Zealand under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 1st December 2017. The Company's parent and ultimate parent entity is Hamilton City Council.

The financial statements of Waikato Innovation Growth Limited and Group are for the year ended 30 June 2020. The financial statements were authorised for issue by the Board of Directors on the 22 October 2020. The owners or others do not have the power to amend the financial statements after issue.

The group consists of Waikato Innovation Growth Limited, its subsidiary New Zealand Food Innovation (Waikato) Limited (70% owned) and New Zealand Food Innovation (Waikato) Limited subsidiary's NZFIW D2 LP Limited (100% owned).

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Company and Group have been prepared in accordance with the requirements of the Companies Act 1993 and the Local Government Act 2002. Waikato Innovation Growth Limited is a for-profit entity.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ("NZ IFRS RDR"), and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions.

New and amended standards adopted this year

- NZ IFRS 16 - Leases

In the current year, the Group has applied NZ IFRS 16 Leases (as issued by the IASB in January 2016). NZ IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard deals with the recognition, measurement, presentation and disclosure of leases and replaces NZ IAS 17 Leases (NZ IAS 17).

The new standard introduces a single model for lessees which recognises all leases on the balance sheet through an asset representing the right to use the leased item during the lease term and a liability for the obligation to make lease payments. This removes the distinction between operating and finance leases and aims to provide users of the financial statements relevant information to assess the effect that leases have on the balance sheet, income statement and cash flows of the reporting entity. One of the key judgement in applying the new requirements relates to the assessment of whether an option to extend or terminate the lease contract will be exercised. Lessor accounting remains largely unchanged from NZ IAS 17 for the Group.

The Group reviewed leases where the Group is the lessee and these leases primarily relate to land and infrastructure leases.

The Group intends to use the modified retrospective approach with the right of use (ROU) asset being equal to the lease liability as at commencement date for all existing leases at 1 July 2019.

The ROU assets are subsequently depreciated using the straight line method over the shorter of the estimated lives of the ROU assets or the remaining estimated lease term. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within property, plant and equipment. The lease liabilities are initially measured at the present value of the unpaid lease payments at commencement date, discounted using a discount rate.

The discount rates used are the Group's incremental borrowing rate (IBR). The Group's IBR will be the average of the IBR rates obtained from financial institutions for each asset type based on terms similar to the lease term and for similar assets.

The Group will be applying the following practical expedients when applying the new lease standard NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

- The use of a single discount rate to a portfolio of leases with similar characteristics
- Not recognising ROU assets and liabilities for leases with less than 12months of lease term.
- Not recognising ROU assets and liabilities if the leased asset is consider a low value asset.

The estimated impact of adopting NZ IFRS 16 from the period 1 July 2019 is shown below:

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 4.61%.

	$000
Operating lease commitment at 30 June 2019	416,916
Adjustments on transition	-
Adjusted undiscounted operating lease commitment as at 1 July 2019	416,916
Discounted using incremental borrowing rate as at 1 July 2019	388,887

	1 July 2019
Balance sheet	$000
Right of use assets	388,887
Lease liabilities	(388,887)
	-

We do not anticipate the net impact on the consolidated income statement to be material. The estimated impact of the changes under NZ IFRS 16 would be to increase net cashflow from operating activities and increase cash used by financing activities.

b. Discontinued Operations

From the 1st of July 2018 the business growth operations have been transferred to Waikato Regional Economic Development Limited. Waikato Innovation Growth Limited will continue to exist and hold the shares of New Zealand Food Innovation (Waikato) Limited.

c. Basis of Measurement

The financial statements have been prepared on an historical basis except for property, plant and equipment which is measured to fair value.

d. Functional and Presentational currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

e. Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 19: Property, plant and equipment

Note 22: Deferred income

Note 23: Provisions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

a. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intra-group balances, transactions, income and expenses are eliminated on consolidation.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant inter-company accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interest's share of post acquisition surpluses.

The Company holds 70% shares in its subsidiary New Zealand Food Innovation (Waikato) Limited and there is no significant restriction on its ability to access or use assets or settle liabilities of the group.

The New Zealand Food Innovation (Waikato) Limited holds 100% shares in its subsidiary NZFIW D2 LP Limited and there is no significant restriction on its ability to access or use assets or settle liabilities, of the group.

Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income. The Group's associate is:

• Melody Dairies Limited Partnership. Melody Dairies Limited Partnership (MDLP) is 10% owned by NZFIW D2 LP Limited. Significant judgement and assumptions have been used to determine that New Zealand Food Innovation (Waikato) Limited Group (NZFIW Group) has significant influence over MDLP. NZFIW Group has a representation on the board of directors of MDLP. Due to the existing Management Agreement between NZFIW Group and MDLP, NZFIW Group is considered providing essential technical information to MDLP. As a result, it has been determined that NZFIW Group has significant influence over MDLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures.
Melody Dairies Limited Partnership's principle place of business is 12 Melody Lane, Hamilton.

• Melody Dairies GP Limited. Melody Dairies GP Limited (MDGPL) is 10% owned by New Zealand Food Innovation (Waikato) Limited (NZFIW). Significant judgement and assumptions have been used to determine that NZFIW has significant influence over MDGPL. NZFIW has a representation on the board of directors of MDGPL. As a result, it has been determined that NZFIW has significant influence over MDGLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures. MDGPL is dormant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

Non-controlling interest (NCI)

The interests of the parent and the NCI in the subsidiaries are adjusted to reflect the relative change in their interests in the subsidiaries equity. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owner of the parent.

b. Revenue

The Group recognises revenue from the rendering of spray dryer services and from rendering of sales of goods. Spray drying is a method of producing a dry powder from a liquid provided by customers by quickly drying this with a hot gas. The Group enters into a contract with the customer for usage of the spray dryer for a fixed period of time and the consideration includes the daily charge rates and utility costs oncharged. The Group enters into a contract with the customer to produce product per minimum quantity specified.

The Group satisfies its performance obligations as services are rendered. Payment terms are the customer must pay the amount due or before the 20th day of the month of invoice. No obligations for returns, refunds and other similar obligation or types and warranties and related obligations are attached to the contracts.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of the service to a customer.

Judgements around the timing of satisfaction of performance obligations, the transaction price and amounts allocated to performance obligations are determined per the contracts.

The Directors are satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate as the performance obligations are satisfied at a point in time, and there is no contractual liability for unsatisfied performance obligations at year end.

The Group recognises sale of consents revenue when it transfers the control of the consents to the customer.

Interest income is accounted for on an accrual basis.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

c. Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

d. Foreign Currency Translation

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

e. Leases

Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The right of use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs incurred. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right of use assets are presented as a separate line in the consolidated statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

• The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

• The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is re-measured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

• A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

f. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

g. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

h. Trade and Other Receivables

Trade and other receivables are stated initially at fair value then at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified. Trade and Other Receivables are classed as 'Trade and other receivables' financial instruments (Note 27).

i. Work in progress

Work in progress is valued at cost.

j. Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks	10 years

k. Property, Plant & Equipment

Property, plant & equipment is measured at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a straight line basis and diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer hardware	3-5 years
Office Equipment	20 years

The assets' residual values, depreciation method and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that it's carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

l. Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

m. Trade and Other Payables

Payables and accruals are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are recognised initially at fair value and subsequently at amortised cost.

n. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

o. Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and bonuses. Short-term employee entitlement obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

p. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

q. Impairment

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

4. REVENUE	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Revenue from contracts for the sale of goods	1,685	3,543	-	-
Revenue from contracts for the rendering of services	6,317	5,853	-	-
Revenue from the rendering of services	14	15	-	-
Deferred grant income	179	179	-	-
Total operating revenue	**8,195**	**9,590**	**-**	**-**

Timing of revenue recognition - At point in time.

5. OTHER INCOME	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Covid-19 government wage subsidy	77	-	-	-
Sale of consent	-	1,610	-	-
less cost of consent	-	(395)	-	-
Total other income	**77**	**1,215**	**-**	**-**

6. PERSONNEL COSTS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Salaries and wages	2,393	1,981	-	(6)
Defined contribution plan	48	36	-	-
Covid-19 government wage subsidy payment	77	-	-	-
Total personnel costs	**2,518**	**2,017**	**-**	**(6)**

Annual remuneration by band for employees	**2020 Number**	**2019 Number**
< $100,000	31	21
$100,000 - $109,999	2	-
$110,000 - $119,999	2	3
$120,000 - $129,999	-	1
$130,000 - $139,999	2	1
$140,000 - $149,999	1	-
$150,000 - $159,999	-	-
$160,000 - $169,999	1	1
Total Employees	**39**	**27**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

7. AUDIT FEES	Group $000		Company $000	
	2020	2019	2020	2019
Audit fee for 2019/20 year	49	-	8	-
Audit fee for 2018/19 year	14	41	5	8
Audit fee for 2017/18 year	-	14	-	7
Total audit fees	**63**	**55**	**13**	**15**

8. DEPRECIATION	Group $000		Company $000	
	2020	2019	2020	2019
Property, plant and equipment depreciation	980	1,187	-	-
Right of use asset depreciation	12	-	-	-
Total depreciation	**992**	**1,187**	**-**	**-**

9. FINANCE COSTS	Group $000		Company $000	
	2020	2019	2020	2019
Finance income				
Interest income	-	1	-	-
Total finance income	**-**	**1**	**-**	**-**
Finance costs				
Bank fees	(14)	(5)	-	-
Interest on Hamilton City Council loan	-	(4)	-	(4)
Interest on bank borrowings	(265)	(218)	-	-
Interest on lease liabilities	(18)	-	-	-
Total finance costs	(297)	(227)	-	(4)
Net finance costs	**(297)**	**(226)**	**-**	**(4)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

10. OTHER GAINS AND LOSSES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Losses				
Net foreign exchange loss	(9)	(31)	-	-
Loss on disposal of fixed assets	(1)	(16)	-	-
Total other gains and losses	**(10)**	**(47)**	**-**	**-**

11. INCOME TAX	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Current tax				
Current year	-	(2)	-	-
Adjustment for prior years	(11)	25	-	-
	(11)	23	-	-
Deferred tax				
Current year	38	(36)	4	8
Adjustment for prior years	12	(24)	(8)	(18)
Total income tax expense recognised	**39**	**(37)**	**(4)**	**(10)**
The income tax expense for the year can be reconciled to the accounting profit as follows:				
Profit before tax	(150)	1,332	(15)	(29)
Income tax expense at 28%	42	(373)	4	8
Effect of income that is exempt from tax	-	451	-	-
Effect of expenses that are not deductible	(3)	(115)	-	-
Adjustment for prior year - subvention payment	-	-	(8)	(18)
Income tax expense recognised in profit or loss	**39**	**(37)**	**(4)**	**(10)**

Deferred tax balances

Group ($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,930)	(74)	-	(3,004)
Provisions	(22)	5	-	(17)
Deferred income	712	(50)	-	662
Tax losses	10	169	-	179
Balance as at 30 June 2020	**(2,230)**	**50**	**-**	**(2,180)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(3)	(19)	-	(22)
Deferred income	762	(50)	-	712
Tax losses	16	(6)	-	10
Balance as at 30 June 2019	**(1,565)**	**(60)**	**(605)**	**(2,230)**

Deferred tax balances

Company ($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Tax losses	8	(4)	-	4
Balance as at 30 June 2020	**8**	**(4)**	**-**	**4**

($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Provisions	2	(2)	-	-
Tax losses	16	(8)	-	8
Balance as at 30 June 2019	**18**	**(10)**	**-**	**8**

12. EQUITY	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Share capital				
Ordinary shares (4,000,100 shares)				
Balance 1 July	4,000	4,000	4,000	4,000
Total Ordinary shares	**4,000**	**4,000**	**4,000**	**4,000**
Total issued and called shares 30 June	**4,000**	**4,000**	**4,000**	**4,000**

Ordinary Shares

All ordinary shares carry equal voting rights and entitle the holder to participate in dividends and the right to share in any surplus on winding up. The shares have no par value.

4,000,100 shares have been issued and fully paid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

Revaluation Reserve	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Property				
Opening balance	(25)	(168)	-	-
Revaluation	-	198	-	-
Income tax on revaluation surplus	-	(55)	-	-
Closing balance	**(25)**	**(25)**	**-**	**-**
Plant and equipment				
Opening balance	5,369	3,956	-	-
Revaluation	-	1,962	-	-
Income tax on revaluation surplus	-	(549)	-	-
Closing balance	**5,369**	**5,369**	**-**	**-**
Total revaluation reserve	**5,344**	**5,344**	**-**	**-**

13. CASH AND CASH EQUIVALENTS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
BNZ Bank account	175	82	-	-
Total cash and cash equivalents	**175**	**82**	**-**	**-**

New Zealand Food Innovation (Waikato) Limited has an overdraft facility with BNZ with a limit of $250,000.

14. INVENTORIES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Goods in transit	-	395	-	-
Raw materials	350	1,086	-	-
Finished goods	-	2	-	-
Total inventories	**350**	**1,483**	**-**	**-**

The cost of inventories recognised as an expense during the year was $1,296,745 (2019: $2,956,168).
No inventory write-downs were recognised as an expense during the year (2019: $30,286).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

15. TRADE AND OTHER RECEIVABLES	Group $000		Company $000	
	2020	2019	2020	2019
Contract assets	769	763	-	-
Trade receivables	-	2	-	-
Provision for doubtful debts	(50)	-	-	-
Related parties receivable	80	24	-	-
Income tax receivable	9	91	-	-
Other receivables	2	36	-	-
Total trade and other receivables	**810**	**916**	**-**	**-**

16. PAYABLES AND ACCRUALS	Group $000		Company $000	
	2020	2019	2020	2019
Trade payables	318	633	-	-
Accruals	105	84	5	4
Other payables	19	4	-	-
Total payables and accruals	**442**	**721**	**5**	**4**

17. INVESTMENT IN ASSOCIATES	Group $000		Company $000	
	2020	2019	2020	2019
Melody Dairies Limited Partnership				
Interest held by the group	10%	10%	-	-
Opening balance	2,619	-	-	-
Additions during the year	997	2,626	-	-
Share of revenue and expenses	(12)	(7)	-	-
Balance at 30 June	**3,604**	**2,619**	**-**	**-**
Melody Dairies GP Limited				
Interest held by the group	10%	10%	-	-
Balance at 30 June	**-**	**-**	**-**	**-**
Total investment in associates	**3,604**	**2,619**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

18. INVESTMENT IN SUBSIDIARIES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
New Zealand Food Innovation (Waikato) Limited				
Shares at cost	-	-	2,800	4,000
Transfer of shares	-	-	-	(1,200)
Total investment in subsidiaries	**-**	**-**	**2,800**	**2,800**

19. PROPERTY, PLANT AND EQUIPMENT

Group ($000)	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2019				
Opening net book amount	3,450	15,443	33	18,926
Additions	12	144	8	164
Disposals	-	(41)	(6)	(47)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
Closing net book amount	**3,483**	**16,504**	**29**	**20,016**
As at 30 June 2019				
Cost or valuation	3,483	16,504	38	20,025
Accumulated depreciation	-	-	(9)	(9)
Net book amount	**3,483**	**16,504**	**29**	**20,016**
For the year ended 30 June 2020				
Opening net book amount	3,483	16,504	29	20,016
Additions	323	127	69	519
Disposals	-	(1)	-	(1)
Depreciation charge	(144)	(829)	(7)	(980)
Closing net book amount	**3,662**	**15,801**	**91**	**19,554**
As at 30 June 2020				
Cost or valuation	3,806	16,630	107	20,543
Accumulated depreciation	(144)	(829)	(16)	(989)
Net book amount	**3,662**	**15,801**	**91**	**19,554**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

Company ($000)	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2019				
Opening net book amount	-	21	6	27
Disposals	-	(21)	(6)	(27)
Closing net book amount	-	-	-	-
As at 30 June 2019				
Cost or valuation	-	-	-	-
Accumulated depreciation	-	-	-	-
Net book amount	-	-	-	-
For the year ended 30 June 2020				
Opening net book amount	-	-	-	-
Disposals	-	-	-	-
Closing net book amount	-	-	-	-
As at 30 June 2020				
Cost or valuation	-	-	-	-
Accumulated depreciation	-	-	-	-
Net book amount	-	-	-	-

No valuation was completed in 2020. Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 26 February 2019. The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment.

There was no impairment in 2020 (2019: NIL). No borrowing costs were capitalised during the year (2019: NIL).

	Group $000		Company $000	
20. INTANGIBLE ASSETS	**2020**	**2019**	**2020**	**2019**
Cost - Trademark				
Balance 1 July	1	1	-	-
Amortisation	-	-	-	-
Balance 30 June	1	1	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

21. RIGHT OF USE ASSETS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Property - Land				
Cost 1 July	389	-	-	-
Additions	-	-	-	-
Cost 30 June	**389**	**-**	**-**	**-**
Accumulated depreciation 1 July	-	-	-	-
Charge for the year	12	-	-	-
Accumulated depreciation 30 June	**12**	**-**	**-**	**-**
Carrying amount 30 June	**377**	**-**	**-**	**-**

New Zealand Food Innovation (Waikato) Limited leases land from Waikato Innovation Park Limited. The lease term is 33 years. The contract started 1 July 2018 and had renewal tersm of 20+10+5.

22. DEFERRED INCOME	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Original grant	3,794	3,794	-	-
less deferred grant recognised prior years	(1,253)	(1,074)	-	-
	2,541	**2,720**	**-**	**-**
Opening balance	2,541	2,720	-	-
less deferred grant recognised	(179)	(179)	-	-
Total deferred grant	**2,362**	**2,541**	**-**	**-**
Revenue received in advance	131	242	-	-
Total deferred income	**2,493**	**2,783**	**-**	**-**
Current portion	289	296	-	-
Non-current portion	2,204	2,487	-	-
Total deferred income	**2,493**	**2,783**	**-**	**-**

Deferred grant relates to government grants provided to develop the spray dryer facility (part of property, plant and equipment). The deferred grant is written off over 20 and 25 years respectively for the spray dryer facility, being the estimated useful life of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

23. PROVISIONS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Nu-Mega Ingredients (NZ) Limited contract				
Opening balance	-	196	-	-
Unused amounts reversed	-	(196)	-	-
Balance 30 June	**-**	**-**	**-**	**-**
Silo contracts				
Opening balance	168	160	-	-
On acquisition	-	-	-	-
Charge to profit or loss	4	8	-	-
Balance 30 June	**172**	**168**	**-**	**-**
Total provisions	**172**	**168**	**-**	**-**

NZFIW entered into a contract with the following customers, Central Dairy Goat, Spring Sheep Dairy, NZ Nutritional Goat and Maui Milk for use of Silo 4 for five years and to each loan NZFIW $65,000 for the building of Silo 4 at the factory. NZFIW will reimburse the customers $43,333 on the 30th June 2022. Should the customer still be manufacturing at the FoodWaikato site beyond May 2022 the repayment will be made at the end of the year, that the customer stops manufacturing at Food Waikato. NZFIW has created a provision (discounted to present value) for $43,333 of the loan.

24. TERM LOANS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
BNZ 92346126-03 loan	-	4,274	-	-
BNZ 92346126-04 loan	4,675			
	4,675	**4,274**	**-**	**-**
Current portion	-	-	-	-
Non-current portion	4,675	4,274	-	-
Total term loans	**4,675**	**4,274**	**-**	**-**

Term loans are secured by a mortgage over the property at Ruakura Road, Hamilton certificate of title No. 135745.

	2020		2019	
	Interest rate	*Maturity Date*	*Interest rate*	*Maturity Date*
BNZ 92346126-04 loan	-	-	5.07%	August 2021
BNZ 92346126-03 loan	4.44%	November 2022	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

25. OTHER LOANS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Bonds	550	840	-	-
Total other loans	**550**	**840**	**-**	**-**
Total current portion	240	490	-	-
Total non-current portion	310	350	-	-
Total other loans	**550**	**840**	**-**	**-**

26. LEASE LIABILITIES	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Opening balance	389	-	-	-
Cash flows	(23)	-	-	-
Non-cash movement	18	-	-	-
Balance 30 June	**384**	**-**	**-**	**-**
Total lease liabilities	**384**	**-**	**-**	**-**

Non-cancellable operating lease commitments as lessee are as follows:	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
No later than one year	23	23	-	-
Later than one year and no later than five years	93	93	-	-
Later than five years	278	301	-	-
	394	**417**	**-**	**-**

Amounts recognised in Statement of Comprehensive Income	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Expenses relating to short-term leases	58	-	-	-
Expenses relating to leases of low value assets	1	-	-	-
	59	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

27. RELATED PARTIES LOANS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
New Zealand Food Innovation (Waikato) Limited	-	-	12	26
Total related parties loans	**-**	**-**	**12**	**26**

New Zealand Food Innovation (Waikato) Limited is owned by Waikato Innovation Growth (70%) and Callaghan (30%). New Zealand Food Innovation (Waikato) Limited has paid operating costs on behalf of Waikato Innovation Growth Limited.

28. FINANCIAL INSTRUMENTS	Group $000 2020	Group $000 2019	Company $000 2020	Company $000 2019
Financial assets at amortised cost				
Cash and cash equivalents	175	82	-	-
Trade and other receivables	849	789	-	-
Total loans and receivables	**1,024**	**871**	**-**	**-**
Financial liabilities at amortised cost				
Payables and accruals	442	721	5	4
Short term employee entitlements	233	268	-	-
Term loans	4,675	4,274	-	-
Other loans	550	840	-	-
Provisions	172	168	-	-
Related parties	-	-	12	26
Total financial liabilities at amortised costs	**6,072**	**6,271**	**17**	**30**

The Group has no: financial liabilities classified at fair value through profit or loss; financial assets classified at fair value through profit or loss; or fair value through other comprehensive income.

Net gains or net losses on financial assets measured at amortised costs are recognised through the profit or loss and includes interest or dividend income. Net gains or net losses on financial liabilities at amortised cost are recognised in the profit or loss and includes interest expense.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

29. RECONCILIATION OF FINANCING ACTIVITIES

Group $000	2019	Cash flows	Non-cash changes	2020
Financing activities				
Term loans	4,274	401	-	4,675
Other loans	840	(290)	-	550
Provisions	168	-	4	172
Lease liabilities	389	(23)	18	384
Total liabilities from financing activities	**5,671**	**88**	**22**	**5,781**

	2018	Cash flows	Non-cash changes	2019
Financing activities			Fair value changes	
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)	-	840
Provisions	356	-	(188)	168
Related parties	200	(200)	-	-
Total liabilities from financing activities	**6,230**	**(760)**	**(188)**	**5,282**

Company $000	2019	Cash flows	Non-cash changes	2020
Financing activities				
Related parties	-	-	-	-
Total liabilities from financing activities	**-**	**-**	**-**	**-**

	2018	Cash flows	Non-cash changes	2019
Financing activities			Fair value changes	
Related parties	200	(128)	(72)	-
Total liabilities from financing activities	**200**	**(128)**	**(72)**	**-**

30. CAPITAL COMMITMENTS

The following amounts have been committed to by the group but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

As at 30 June 2020 New Zealand Food Innovation (Waikato) Limited has capital commitments of $1,143 to Combined Technologies Limited for the completion of an Attach to Lots software (2019: $9,848).

As at 30 June 2020 New Zealand Food Innovation (Waikato) Limited has capital commitments of $14,425 to Portacom for the purchase of a multipurpose unit (2019: NIL).

NZFIW D2 LP Limited has no capital commitments to Melody Dairies Limited Partnership for capital drawdowns in 2020 (2019: $656,698).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

31. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	Group $000		Company $000	
	2020	2019	2020	2019
Profit/(loss) for the year	**(111)**	**1,295**	**9**	**26**
Add/(less) non-cash items				
Other income	-	(1,610)	-	-
Cost of consent	-	395	-	-
Bad and doubtful debts	50	-	-	-
Interest - provisions	22	(23)	-	-
Depreciation and amortisation	992	1,187	-	-
Subvention payment	-	-	-	(65)
Loss on disposal of fixed assets	1	16	-	-
Share of associates (surplus)/deficit	12	7	-	-
Deferred income	(290)	(287)	-	-
Total non-cash items	**787**	**(315)**	**-**	**(65)**
Add/(less) movements in working capital				
Revenue received in advance	-	(15)	-	-
Accrued income	(7)	-	-	-
Trade debtors and other receivables	(62)	49	-	68
Prepayments	(4)	(182)	-	2
Income tax expense & subvention payment in profit/loss	(38)	37	4	10
Payables and accruals	(186)	(19)	1	(38)
Short term employee entitlements	(35)	(14)	-	(6)
Related parties loans	-	-	(14)	19
Inventories	1,138	846	-	-
Total movement in working capital	**806**	**702**	**(9)**	**55**
Net cash flow from operating activities	**1,482**	**1,682**	**-**	**16**

32. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

Shareholder

New Zealand Food Innovation (Waikato) Limited paid $162,896 (2019: $131,720) to Hamilton City Council for trade waste and application fees. A balance of $45,649 inclusive is outstanding at balance date (2019: NIL).

Subsidiaries and associates

New Zealand Food Innovation (Waikato) Limited

New Zealand Food Innovation (Waikato) Limited has paid operating costs of $14,759 (2019: $86,759) on behalf of Waikato Innovation Growth Limited. No amount is outstanding at balance date (2019: NIL).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

New Zealand Food Innovation (Waikato) Limited has paid no expense in 2020 (2019: $68,597) to Waikato Innovation Growth Limited for insurances.

New Zealand Food Innovation Limited (Waikato) paid a subvention payment of $28,383 (2019: $64,773) to Waikato Innovation Growth Limited for the 2019 tax year.

NZFIW D2 LP Ltd

In 2019 New Zealand Food Innovation (Waikato) Limited made sales of $1,609,820 to NZFIW D2 LP Limited for consent costs in accordance with an agreement with NZFIW D2 LP Limited. No sales were made in 2020.

New Zealand Food Innovation (Waikato) Limited has paid operating costs of $11,139 (2019: $1,786) on behalf of NZFIW D2 LP Limited. No amount is outstanding at balance date (2019 NIL).

New Zealand Food Innovation (Waikato) Limited has paid $997,106 (2019: $1,016,361) to NZFIW D2 LP Limited for capital amounts for Melody Dairies Limited Partnership.

Melody Dairies Limited Partnership

Melody Dairies Limited Partnership has paid $137,292 (2019: $190,959) to New Zealand Food Innovation (Waikato) Limited for project management and have reimbursed $474,791 ($302,460) for project costs paid by the Company previously. A balance of $79,716 (2019: $23,940) inclusive is outstanding at 30 June 2020.

NZFIW received on behalf of Melody Dairies Limited Partnership $77,326 from theCovid-19 government wage subsidy (2019: NIL).

Callaghan Innovation

New Zealand Food Innovation (Waikato) Limited made sales of $80,000 (2019: $80,004) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2019: NIL).

New Zealand Food Innovation (Waikato) Limited has paid $470 (2019: $457) to Callaghan Innovation for Directors travel expense to board meetings. No amount is outstanding at balance date (2019: NIL).

Key Management Personnel Disclosure

Key management personnel compensation	2020: $620,826	2019: $560,227

Other

Stuart Gordon the CE of NZFIW is the CE of Waikato Innovation Park Limited which provides management services and lease to NZFIW . During the year Waikato Innovation Park Limited charged the Group $307,716 GST exclusive for these services (2019: $160,758). A balance of $27,780 inclusive is owing at 30 June 2020 (2019: $8,068)

Matt Kenny is a Director of New Zealand Food Innovation Auckland Limited which provides CRM and innovation network support. During the year New Zealand Food Innovation Auckland Limited charged the Company $3,044 GST exclusive for these services (2019: $3,676). A balance of $182 inclusive is owing at 30 June 2020 (2019: $182).

Matt Kenny is a Director of New Zealand Food Innovation (South Island) Limited. During the year New Zealand Food Innovation (South Island) Limited charged NZFIW $485 (2019: $408). No amount is outstanding at balance date (2019: NIL).

33. CONTINGENCIES

No contingencies have been identified at balance date (2019: NIL).

34. COVID-19 IMPACT DISCLOSURES

On 11 March 2020, the World Health Organisation declared the outbreak of Covid-19 a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was in lockdown at Alert Level 4 from 26 March to 27 April, and then remained in lockdown at Alert Level 3 until 13 May.

NZFIW was certified by MPI as an essential business during this period and therefore continued to operate albeit under enhanced tracking and social distancing regime.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

After 13 May, NZFIW continued as normal. The effect on our operations is reflected in these financial statements, based on the information available to the date these financial statements are signed. There may be secondary implications that affect the NZFIW in the future due to the effect Covid-19 might have on customers in the medium term. However interviews with our key customers have disclosed to date no significant issues.

We have also disclosed in the financial statements our significant assumptions and judgements regarding the future potential impacts that may have a material impact on. These uncertainties might have a material impact in future.The main impacts on the NZFIW financial statements due to Covid-19 are explained below:

- Revenue – **Management and IP fee revenue from Melody Dairies LP was negatively affected by $234,195 because commissioning** was delayed by three months due to Covid-19

- Operating expenses - NIL

- Impairment of tangible and intangible assets - an impairment assessment has been completed for tangible and intangible assets. The result of this assessment was future cash flows have forecasted to be the same as before Covid-19. Therefore, our assessment is a nil impairment.

NZFIW D2 LP Limited did not encounter any impact from the lock down. This is due to the Company having no operations and only holding the investment in Melody Dairies Limited Partnership whichs fair value was not impacted by Covid-19.

PERFORMANCE TARGETS AND RESULTS

For the year ended 30 June 2020

The Group prepares an annual Statement of Corporate Intent, which is approved by the Shareholders and incorporates financial and performance measure for the ensuing year. This is in accordance with section 64(5) of the Local Government Act 2002. The 2019/20 Statement of Corporate Intent was approved by Hamilton City Council.

Performance information relevant to the Company is disclosed below:

Waikato Innovation Growth Limited (Group)

Budget and actual results	2020 Actual $000	2020 Statement of Corporate Intent $000	2019 Actual $000	2019 Statement of Corporate Intent $000
Net Profit after tax	(111)	337	1,295	385
Shareholder's funds/Tangible assets	55%	70%	55%	53%

New Zealand Food Innovation (Waikato) Limited

Budget and actual results	2020 Actual $000	2020 Statement of Corporate Intent $000	2019 Actual $000	2019 Statement of Corporate Intent $000
EBITDA NZFIW	1,177	1,956	-	-
Revenue NZFIW	-	-	11,200	7,461
NZFIW Cash from operating activities	1,482	856	-	-
Capital expenditure	519	650	164	700
Investment in Melody Dairies	3,604	1,670	-	-

Key objectives and actual results to 30 June 2020

Key objectives	Actual results
1. 284 days of product development production via the spray dryer contributing exceeding $60 million to the regional economy.	276 days of production via the spray dryer and exports from the spray dryer were estimated at $45.2m. We estimate $218m of capital investment has been made "on farm" as a result of the NZFIW spray dryer.
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2019/2020.	Over $32m of private capital was raise to establish Melody Dairies Limited Partnership spray dryer. The commissioning of the dryer was completed on the 30th June 2020.
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. $1.67 million will available within the company's own cash flow.	NZFIW purchased 6% of the shares in Melody Dairies Limited Partnership. It also obtained a further 5% through the intellectual property we contributed to build the plant.

4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.	The launch of infant formula for sheep milk was delayed to the 2020/21 year. However we were audited by Danone the largest infant formula seller internationally. This audit allowed Maui Milk to sell its products to Danone to produce infant formula.
5. Income receiving from managing Melody Dairies expects to amount to a net of $400k.	Covid -19 delayed the construction of Melody Dairies Limited Partnership by 2 months. This means the management fee payments were delayed to 1st July 2020. We did receive $297,000 of project management fee.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Waikato Innovation Growth Limited's group financial statements and performance information for the year ended 30 June 2020

The Auditor-General is the auditor of Waikato Innovation Growth Limited Group (the Group). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the Group, on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 8 to 36, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 37 to 38.

In our opinion:

- the financial statements of the Group on pages 8 to 36:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2020; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards with reduced disclosure requirements; and
- the performance information of the Group on pages 37 to 38 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2020.

Our audit was completed on 22 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Group. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out in note 34 to the financial statements.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 7, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

Council Report

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Candice Swanepoel	**Authoriser:**	Tracey Musty
Position:	Business Performance Accountant	**Position:**	Financial Controller

Report Name: Civic Financial Services Ltd Half Year Report 30 June 2020

Report Status	*Open*

Purpose - *Take*

1. To inform the Economic Development Committee of the Half Year Report for Civic Financial Services Ltd (Civic) to 30 June 2020.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Economic Development Committee receives the Civic Financial Services Ltd Half Year Report to 30 June 2020.

Executive Summary - *Whakaraapopototanga matua*

3. Civic Financial Services Ltd supplies local government with a range of financial services including LAPP and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes.
4. Civic has 72 local authority shareholder members as well as TrustPower (holding 1.22%). The Hamilton City Council holds 1.8%.
5. Local Government Superannuation Trustee Limited and Local Government Mutual Funds Trustee Limited are wholly owned subsidiaries of the Company.
6. Civic's income has reduced due to the sale of Civic Assurance House in August last year and lower superannuation fees introduced from 1 April 2020.
7. Civic is currently tracking above budget and has a before-tax profit of $0.314M at 30 June 2020.
8. There have been no significant events since the reporting date that affect the results disclosed in the half year financial statements.
9. Civic's financial year is January to December. The final audited 2019/2020 Annual Report will be presented to the Economic Development Committee in April 2021.
10. Staff consider the matters and decisions in this report to have a low significance and that the recommendations comply with the Council's legal requirements.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

11. Staff confirm the recommendation complies with the Council's legal and policy requirements.

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Financial Considerations - *Whaiwhakaaro Puutea*

12. There are no financial implications in relation to the recommendation in this report.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

13. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

14. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.

15. The recommendations set out in this report are consistent with that purpose.

16. There are no environmental, social or cultural wellbeing implications identified in the formulation of this report.

Risks - *Tuuraru*

17. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

18. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation(s) in this report has/have a low level of significance.

Engagement

19. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Civic Financial Services Ltd - Half Year Report 30 June 2020

Civic Financial Services Ltd
SERVICING LOCAL GOVERNMENT ACROSS NEW ZEALAND

Richard Briggs
Chief Executive
Hamilton City Council
Private Bag 3010
HAMILTON 3240

24 September 2020

Dear Richard,

Civic Financial Services Half-Yearly Accounts – 30 June 2020

Please find enclosed your copy of the half-yearly accounts for Civic Financial Services Limited ("Civic") to 30 June 2020. You will be pleased to see that the company is tracking above budget and has returned an (unaudited) pre-tax profit of $0.314 million for the first half of 2020 with the company maintaining a strong financial position as at 30 June 2020. The company's income has reduced due to the sale of Civic Assurance House in August of last year and lower superannuation fees introduced from 1 April 2020.

As reflected in the accounts Civic's income is derived from administration services and investment income. In addition to administering Riskpool, Civic Liability Pool and the LAPP Fund, Civic administers the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes which are offered to local government on an exclusive basis. Civic (through its SuperEasy and/or SuperEasy KiwiSaver Scheme) provides superannuation services to 76 councils, has over 11,000 members and funds under management of over $450 million. Of the councils that have a preferred provider for KiwiSaver, 70 out of 74 (94%) have appointed Civic.

Yours sincerely

Ian Brown
Chief Executive

Civic Financial Services Ltd • 116 Lambton Quay • PO Box 5521 Wellington 6140 • Email: admin@civicfs.co.nz
Tel: 04 978 1250 • Fax: 04 978 1260 • www.civicfs.co.nz

CIVIC FINANCIAL SERVICES LTD

STATEMENT OF COMPREHENSIVE INCOME (Unaudited)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Note	Six Months 2020 $M	Six Months 2019 $M	Full Year 2019 $M
REVENUE				
Administration Fees		1,469	1,434	2,948
Income from Investments		75	222	330
Property Income		-	459	572
Gain on sale of Building		-	-	1,210
TOTAL REVENUE		1,543	2,115	5,059
EXPENDITURE				
Property Operating Expenses		-	369	396
Depreciation & Amortisation		9	21	35
Employee Remuneration		348	384	751
Other Expenses		872	836	1,626
TOTAL EXPENDITURE		1,229	1,610	2,808
NET SURPLUS BEFORE TAXATION		314	505	2,251
Less Taxation Expense	6	88	141	301
NET SURPLUS AFTER TAXATION		226	364	1,950

STATEMENT OF MOVEMENTS IN EQUITY (Unaudited)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six Months 2020 $M	Six Months 2019 $M	Full Year 2019 $M
Equity as at 1 January	10,477	17,945	17,945
Net Surplus After Taxation	226	364	1,950
Dividend Payment	-	-	(9,418)
EQUITY AS AT 30 JUNE	10,703	18,309	10,477

STATEMENT OF FINANCIAL POSITION (Unaudited)
AS AT 30 JUNE 2020

	Note	2020 $M	2019 $M	2019 $M
EQUITY				
Capital		10,764	10,764	10,764
Retained Earnings		(60)	7,545	(286)
TOTAL EQUITY		10,703	18,309	10,477
Represented By:				
Current Assets				
Bank & Cash Equivalents		124	548	274
Term Deposits		4,935	4,100	5,290
Receivables		457	940	555
Loans	7	2,877	5,755	1,997
TOTAL CURRENT ASSETS		8,393	11,343	8,116
Non-Current Assets				
Property, Plant & Equipment & Intangible Assets		155	248	123
Deferred Tax Asset		2,398	2,646	2,486
TOTAL NON CURRENT ASSETS		2,553	2,894	2,610
Investments				
Investment Property		-	8,535	-
TOTAL INVESTMENTS		-	8,535	-
TOTAL ASSETS		10,946	22,772	10,725
Current Liabilities				
Sundry Creditors & Accrued Charges		226	4,376	203
TOTAL CURRENT LIABILITIES		226	4,376	203
Non Current Liabilities				
CLP/ Riskpool Admin Fee Reserve		16	87	45
TOTAL NON-CURRENT LIABILITIES		16	87	45
TOTAL LIABILITIES		242	4,463	248
EXCESS OF ASSETS OVER LIABILITIES		10,703	18,309	10,477

The notes to the accounts on page 3 form part of and are to be read in conjunction with these Statements.

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CIVIC FINANCIAL SERVICES LTD

STATEMENT OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	Six Months 2020 $M	Six Months 2019 $M	FULL YEAR 2019 $M
Cash Flows from Operating Activities				
Cash from operating activities:		1,525	1,865	3,406
Cash applied to operating activities:		1,185	1,517	2,606
Net Cashflow from Operating Activities	5	341	349	800
Cash Flows from Investing Activities				
Cash provided from investing activities:		409	385	14,532
Cash applied to investing activities:		921	3,672	5,106
Net Cashflow from Investing Activities		(512)	(3,287)	9,426
Cash Flows from Financing Activities				
Cash was provided from financing activities:		21	168	184
Cash applied to financing activities:		-	95	13,549
Net Cashflow from Financing Activities		21	73	(13,365)
Net Decrease in Cash Held		(150)	(2,865)	(3,140)
Opening Cash Balance as at 1 January		274	3,414	3,414
Closing Cash Balance as at 30 June		124	548	274
Being:				
Bank & Cash Equivalents		124	548	274

The notes to the accounts on page 3 form part of and are to be read in conjunction with this statement.

CIVIC FINANCIAL SERVICES LTD
FOR THE SIX MONTHS ENDED 30 JUNE 2020

Notes to the Financial Statements

1 **Statement of Compliance**
The Group is a Tier 1 Public Sector Public Benefit Entity and the financial statements have been prepared in accordance with and comply with Tier 1 Public Sector Public Benefit Entity (PBE) Standards.

2 **Accounting policies**
The accounting policies applied in the preparation of the half year financial statements are consistent with those disclosed in the 2019 annual report except that the investment property has not been revalued.

3 **Basis of Preparation**
These interim financial statements have been prepared in accordance with PBE IAS 34 - Interim Financial Reporting, and should be read in conjunction with the Company's annual financial report for the year ended 31 December 2019. Disclosures in these interim financial statements are less extensive than those in the annual financial report.

4 **Comparative figures.**
The comparative figures are for the six months ended 30 June 2019 and the year ended 31 December 2019.

5 **Reconciliation of net surplus after tax with cash flow from operating activity.**

	Six Months		Full Year
	2020	**2019**	**2019**
	$M	**$M**	**$M**
Reported Surplus After Taxation	226	364	1,950
Add/(less) non cash items			
Loan Interest	(20)	333	(31)
Depreciation	10	22	35
Deferred Tax Liability	88	141	301
Movement in CLP/ Riskpool Admin Fee Reserve	(10)	(10)	(19)
	68	486	286
Add/(less) movements in other working capital items			
Accounts Receivable	96	(153)	40
Accounts Payable	4	107	(99)
Tax Refund Due	-	4	4
	100	(43)	(55)
Less Items Classified as investing activity	(54)	(385)	(1,512)
Less Items Classified as financing activity	-	(73)	130
Net Cash Outflow from Operating Activities	341	349	800

6 **Income Tax**
The income tax liability for June 2020 is nil as the Company has unused tax credits with which it will use to offset any income tax expense .

7 Secured loan agreements between the Company and Local Government Mutual Funds Trustee Limited on behalf of New Zealand Mutual Liability Riskpool ("Riskpool") were entered into in February 2017 and August 2017 for $2,250,0000 each to assist with Riskpool's cashflow. Both loans are arm's length and on commercial terms. Any loan may be repaid by Riskpool at any time without penalty and the agreement terminated by either party with six months' notice.

8 **Contingent liabilities.**
The contingent liabilities are:
i) 100,000 uncalled shares in the wholly owned subsidiary, Local Government Superannuation Trustee Limited.
ii) 1,000 uncalled shares in the wholly owned subsidiary, Local Government Mutual Funds Trustee Limited.
iii) 100 uncalled shares in the wholly owned subsidiary, SuperEasy Limited.
iv) 100 uncalled shares in the wholly owned subsidiary, Local Government Finance Corporation Limited.

9 **Events occurring after reporting date**
ii) There have been no significant events since the reporting date that affect the results disclosed in the half year financial statements.

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Council Report

Item 10

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Wendy O'Neill	**Authoriser:**	Lance Vervoort
Position:	Strategic Property Team Leader	**Position:**	General Manager Community
Report Name:	Draft Domain Endowment Fund Policy		

Report Status	*Open*

Purpose - *Take*

1. To inform the Economic Development Committee on proposed revisions to the Municipal and Domain Endowment Fund Policy to create a separate Domain Endowment Fund policy.
2. To seek approval from the Economic Development Committee of the draft Domain Endowment Fund Policy.

Staff Recommendation - *Tuutohu-aa-kaimahi* (Recommendation to the Council)

3. That the Economic Development Committee:

   a) receives the report; and

   b) recommends that the Council approves the Draft Domain Endowment Fund Policy (previously the Municipal and Domain Endowment Fund Policy).

Executive Summary - *Whakaraapopototanga matua*

4. At a briefing on 5 August 2020, Members considered the need to amend the Municipal and Domain Endowment Fund Policy to promote better management and accountability of both the Municipal Endowment Fund (MEF) and the Domain Endowment Fund (DEF).
5. Staff recommend splitting the current policy into two separate policies as the MEF and the DEF sit under two different legislative frameworks that are not strictly compatible.
6. At the Economic Development Committee meeting on 8 September 2020, the Committee approved a recommendation to Council to approve a separate MEF Policy.
7. A separate DEF Policy has now been drafted (**Attachment 1**) and staff seek the Committee's approval to recommend the policy to Council. **Attachment 2** shows the changes made to the original Municipal and Domain Endowment Fund Policy.
8. Staff consider the matters in this report to have low significance and that the recommendations comply with the Council's legal requirements under legislation and the DEF.

Background - *Kooreo whaimaarama*

9. The Municipal and Domain Endowment Fund Policy was approved by the Finance Committee and came into force on 14 March 2019.

10. The MDEF Policy has been revised and the MEF has been removed from the current policy to set out the Council's objectives for the MEF in a clearer manner and to allow better management and accountability.

11. The DEF is now required to have its own stand-alone policy.

12. The Economic Development Committee holds the delegations for developing, recommending and monitoring the MDEF Policy and the new DEF policy.

Domain Endowment Fund (DEF)

13. The DEF was originally established in 1911 and owned by the Hamilton Domain Board. The Hamilton City Council is the successor to the Hamilton Domain Board.

14. The DEF functions differently from the MEF in that it operates under the Hamilton Domain Endowment Act 1979 (the Act), a unique legislative framework, and the money from the sale of domain endowment land is used for different purposes as specified in the Act, specifically:
    - to meet the cost of improvement or development of recreation reserves
    - to purchase land as recreation reserve subject to the Reserves Act.

15. The fundamental obligation on the Council regarding the DEF is to ensure that it is held to enhance existing reserves or to acquire new land for reserves. DEF assets (land, buildings and cash) must retain a separate identity.

16. The DEF currently sits within the Council's Domain Endowment Restricted Reserve fund and any land and interest earned from the cash reserve is transferred to this fund.

17. In the past, the Council has used money from the sale of DEF land to develop commercial premises (such as *The Verandah* at Hamilton Lake Domain), on the basis that they enhance the amenity of the reserve land on which they sit, and the income they generate is used to benefit reserves within the city.

18. The DEF consists of two asset classes:

Category	Value ($)	Proportion
Land (6 ground leases)	3,480,000	30%
Cash (Restricted Reserve)	8,073,792	70%
Total	**11,553,792**	**100%**

19. As the DEF is governed by a separate act from the MEF, staff have investigated a proposed separation and revision of the existing policy to allow the two funds to be administered according to their respective legislative frameworks.

20. The MEF has already been separated out and was presented to the Committee for recommendation to the Council on 8 September 2020.

Discussion - *Matapaki*

Draft DEF Policy

21. A recent review by staff has brought about considerations on revising the policy to better align with the requirements of the purpose of the DEF and the Act.

22. The DEF's main purposes under the Act are set out as follows:
    i. Section 4 provides the Council with the power to lease domain endowment land under the Public Bodies Leases Act 1969

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ii. Section 5 allows the Council to sell or transfer to the lessee the fee simple estate of the land

iii. Section 6 provides for the freehold of the land to be sold to a lessee; the sale proceeds may be applied by the Council for the following two purposes:

a) By transfer to the Domain Board (now the Council) to meet the costs of improvements or development of recreation reserves;

b) In or towards the purchase of land to be acquired for recreation reserve.

23. Internal consultation has occurred with key stakeholders and the draft DEF policy has been legally reviewed by Tompkins Wake.

Financial Considerations - *Whaiwhakaaro Puutea*

Financial Impact

24. The Act requires that the monies from the DEF be paid into the Hamilton Domain Sale Account established under section 6 of the Hamilton Domain Endowment Act 1965 and known as the Hamilton Reserves Sale Account.

25. The Hamilton Reserves Sales Account sits currently within the Domain Endowment Fund Restrictive Reserve.

26. The money, together with interest accruing from investments, may by applied by the Council as it sees fits for improving and developing recreation reserves or in purchasing land for reserve purposes.

27. The recommendation to revise the policy will allow the Council to continue to provide open space amenities ensuring environmental and social benefits to support Hamilton's plans, city strategy, growth and liveability.

Legal and Policy Considerations - *Whaiwhakaaro-aa-true*

28. Staff confirm that the proposed policy changes comply with the Council's legal requirements and support the requirements for the use and purpose of the DEF under the Hamilton Domain Endowment Act 1979.

29. Tompkins Wake has reviewed the draft DEF Policy and confirmed that it complies with the requirements of use of the DEF.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

30. The purpose of Local Government changed on 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

31. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.

32. The recommendations set out in this report are consistent with that purpose.

Social

33. The draft DEF Policy will promote better outcomes for the community at large, helping to create a more vibrant Hamilton with greater social interaction.

Economic

34. The draft DEF Policy will continue to be available for the purchase of recreational land, improvements and developments on the Council's current reserves, which will help attract people and business to Hamilton to grow the city's economy.

Environmental

35. The draft DEF Policy will continue to be available for open space to be acquired for the city and redevelopment of existing reserves that assist in restoring and protecting the environment.

Cultural

36. Any redevelopments of reserves resulting from the use and investment of the DEF will endorse and embrace the cultural identity of the city.

Risks - *Tuuraru*

The DEF is for reserve-related purposes and leaving it within the MDEF policy will provide less transparency and clarity around its uses and restrictions.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

38. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the matter(s) in this report has/have a low level of significance.

Engagement

39. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Domain Endowment Fund Revised Policy

Attachment 2 - Municipal & Domain Endowment Fund Policy Tracked Changes

First adopted:	26 August 1998
Revision dates/version:	6 November 2002, 6 July 2005, 10 March 2008, 10 December 2008, 8 April 2009, 2 August 2016, 14 March 2019, (Municipal Endowment Fund Policy separated out 17 September 2020)
Next review date:	11 November 2023
Document number:	D-3478135
Associated documents:	Appointment and Remuneration of Board Members of Council Controlled Trading Organisations (CCTOs) Policy; Freeholding of Council Endowment Land Policy; Sale and Disposal of Council Land Policy
Sponsor/Group:	General Manager City Growth

Domain Endowment Fund Policy

Purpose and Scope

1. To provide principles and criteria for Hamilton City Council's (the Council's) management of the Domain Endowment Fund, which is governed by the Hamilton Domain Endowment Act 1979 (the Act).

Principles.

2. Domain Endowment Funds must be used for the following three reserve purposes:

   i. to meet the costs of improvements or development of recreation reserves;
   ii. to be used in, or towards, the purchase of land to be acquired for recreation reserves; or
   iii. for the purchase of land to be acquired in the name of the Council for the purposes of the Act.

Policy

3. Domain Endowment Funds must be managed by the Council.
4. Domain Endowment Funds must be used, directly or indirectly, to support, advance and implement Council's strategic plans for recreation reserves. The Council will identify the priorities within these strategic plans in each 10-Year Plan.
5. To achieve the outcomes sought by the strategic plans in paragraph 4, the Council will manage the Domain Endowment Fund by:

   i. leasing or licensing Domain Endowment land for the purposes set out in the Act to generate income;
   ii. encouraging Domain Endowment properties to be sold as freehold to the lessees of that land under the Act to generate capital for investment and re-investment back into recreation reserves;
   iii. entering into joint ventures to develop reserves for the community to provide flexible options for the future use of recreation reserves; and
   iv. managing its financial assets and liabilities of the Domain Endowment Fund prudently.

First adopted:	26 August 1998
Revision dates/version:	6 November 2002, 6 July 2005, 10 March 2008, 10 December 2008, 8 April 2009, 2 August 2016, 14 March 2019
Next review date:	14 March 2022
Engagement required:	Not SCP
Document number:	D-2157562
Associated documents:	Appointment and Remuneration of Board Members of Council Controlled Trading Organisations (CCTOs) Policy; Freeholding of Council Endowment Land Policy; Sale and Disposal of Council Land Policy
Sponsor/Group:	General Manager City Growth

~~Municipal and~~ Domain Endowment Fund Policy

Purpose and Scope

1. To provide principles and criteria for Hamilton City Council's (the Council's) management of the ~~Municipal Endowment Fund and~~ Domain Endowment Fund which is governed by the Hamilton Domain Endowment Act 1979 (the Act).~~("Endowment Funds").~~

Principles

2. Domain Endowment Funds must be used for the following three reserve purpose:

3. To meet the costs of improvements or development of recreations reserves;

4. To be used in, or towards, the purchase of land to be acquired for recreation reserves; or

5. For the purchase of land to be acquired in the name of the Council for the purposes of the Act.

~~2. The capital must be preserved to comply with the common law principles of endowment.~~

~~3. Endowment Funds must be used for municipal and domain purposes.~~

~~4. Investment must aim to increase returns from the Endowment Funds and must return a dividend to Council that is equivalent to the average cost of Council's debt over the first three-year period of each 10-Year Plan.~~

Policy

5. Domain Endowment Funds may be managed by Council.~~, a Council Controlled Trading Organisation or any other entity or organisation that Council approves.~~

6. Endowment Funds must be used to directly or indirectly support, advance and implement Council's strategic plans. The Council will identify the priorities within these strategic plans in each 10-Year Plan.

7. To achieve the outcomes required in paragraph 6, the entity managing the Domain Endowment Fund by~~will~~:

   a. ~~Undertake new profitable investments as cash flows allow which, over their life, will yield a substantially greater return than previously achieved~~ leasing or licensing Domain Endowment land for the purposes set out in the Ac to generate income;

   ~~b. Promote development of properties in a manner which will maximise the commercial value of the asset by ensuring that the addition of any new capacity is related as closely as possible to actual and forecast market demand;~~

~~c.~~b. Encourage Domain ~~freeholding of E~~endowment properties to be sold as freehold to the lessees of the land under the Act to generate capital for investment and reinvestment back into recreation reserves.~~in higher yielding assets as soon as practicable~~;

~~d.~~c. Enter into joint ventures to develop reserves for the community to provide flexible options for the future use of recreation reserves; and~~or turn-key developments to provide flexible options for the future;~~

~~e.~~d. Manage its financial assets and liabilities of the Domain Endowment fund prudently;~~on a prudent basis~~;

~~f. Seek and effectively administer service contracts with other public sector entities;~~

~~g. Strive to minimise operating costs.~~

Page 2 of 2

Hamilton City Council
Te kaunihera o Kirikiriroa

Item 11

Council Report

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Sean Murray	**Authoriser:**	Sean Murray
Position:	General Manager Venues, Tourism and Major Events	**Position:**	General Manager Venues, Tourism and Major Events

Report Name: H3 Group - Quarter 1 Activity Report 1 July to 30 September 2020

Report Status	*Open*

Purpose - *Take*

1. To inform the Economic Development Committee on the performance of H3 including financial and non-financial reporting, focusing on quarter 1 results from 1 July to 30 September 2020.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Economic Development Committee receives the report.

Executive Summary - *Whakaraapopototanga matua*

3. The intention of this report is to provide a more focused commentary on H3 activity – Council's major events venue operation. This includes Claudelands, FMG Stadium Waikato, Seddon Park and residual activity related to the Founders Theatre. This report also speaks to the impact of COVID-19 on H3 business and a return to trading activity.
4. A report providing the results from Q1 2020/21 is attached.
5. The financial reporting of H3 activity is also reported to Council's Finance Committee within the 2018-2028 10-Year Plan Monitoring Report under "Venues, Tourism and Major Events" activity.
6. Staff consider the matters in this report to have low significance and the recommendations comply with the Council's legal requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

7. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
8. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.
9. The recommendations set out in this report are consistent with that purpose.

Item 11

Social

10. H3 venues and events are safe for people to attend;
11. H3 venues are a place where communities can meet, compete and perform;
12. H3 Venues are place Hamiltonians are proud of.

Economic

13. H3 venues attract events that have a positive economic impact to the city;
14. Events held at H3 venues attract people to the city;
15. H3 venue infrastructure is well maintained, and improvements align with industry needs and requirements;
16. H3 financial management and decision making is sound.

Environmental

17. H3 venues respond to climate change challenges through several operating and built in initiatives. However continuous improvement and attention to this responsibility remains a critical element of the operations reputation and competitiveness. Refer Section 5 of the activity report.
18. H3 venues are healthy environments;
19. H3 cares about reducing, recycling and reusing water, electricity and waste.

Cultural

20. H3 venues offer a range of events for people to attend;
21. The heritage of H3 venues and locations is valued;
22. Our community has trust in H3.

Risks - *Tuuraru*

23. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

24. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation(s) in this report has/have a low level of significance.

Engagement

25. Given the low level of significance determined, the engagement level is low. No engagement is required.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

27. Staff confirm that the recommendation to approve funding complies with the Council's legal and policy requirements.

Financial Considerations - *Whaiwhakaaro Puutea*

28. This is a regular operating activity funded through the Long-Term Plan.

Attachments - *Ngaa taapirihanga*

Attachment 1 - H3 Group Activity Report - Q1 2020/21

Attachment 1

Item 11

ACTIVITY REPORT Q1 2020/21

L.A.B in concert - Claudelands Arena, July 2020

Hamilton City Council
Te kaunihera o Kirikiriroa

GENERAL MANAGER COMMENT

- H3 is a business unit within the Venues, Tourism and Major Events Group at Hamilton City Council responsible for overseeing the city's premier event venues. This report is a summary of H3's Q1 activity for the 2020/21 financial year and was prepared for Council's Economic Development Committee meeting on 11 November 2020.
- Like our previous 2020 reports to this Committee, this report will provide ongoing detail on the impact of COVID-19 on H3's business. Irrespective of the alert level changes in Q1, H3 has exceeded it's budget due to the strong return of events in July and August. This year has certainly created some challenges for the venues business worldwide.
- We were pleased to endorse the "We Make Events" initiative at the end of Q1 to show H3's and Hamilton's support of the entertainment and events industry. Hamilton was one of the first cities in the world to recognise the impact of COVID-19 on this sector as part of a global day of action, by illuminating key venues.

#wemakeevents September 2020 - Claudelands

- I felt it was important to show our support to the many people who work in an industry hit hard by lockdowns and mass gathering limits. In Hamilton alone it is estimated thousands of people involved in the events sector have seen their jobs impacted.

"Hamilton and Waikato is the fourth largest region in New Zealand for hosting business events, conferences and exhibitions which provide educational and professional benefit. Major events help drive domestic visitation into the region and are crucial to leading our social and economic recovery."

Jason Dawson
Hamilton and Waikato Tourism CEO
29 September 2020

Sean Murray

GENERAL MANAGER
VENUES, TOURISM AND MAJOR EVENTS GROUP

H3 GROUP | Q1 ACTIVITY REPORT 2020/21

1. HIGHLIGHTS

1.1 - Q1 SUMMARY

- New Zealand moved to COVID-19 alert level 1 at the end of Q4 19/20, which resulted in a strong start to Q1 for H3 venues. A number of new and returning events took place in July and August.
- The return of business exceeded expectations as postponements became re-bookings and events returned to our venues sooner than anticipated. Protocols over the conduct of meetings and gatherings were all but back to normal and H3's results for July came in ahead of original budgets.
- The level 2 restrictions (12 Aug-21 Sept) led to the immediate re-implementation of a number of plans H3 had prepared during the first lockdown period. These included the installation of clear signage, ground decals, sanitiser stations and QR code posters throughout all venues.
- H3 have also elected to keep the vast majority of our COVID-19 plans in place to prioritise the on-going safety and reassurance for guests to our venues.
- The alert level changes in August did impact on quarterly activity and further reminded us of the need to remain not only vigilant of the virus, but also conservative in our business expectations.
- However, as reporting in the Year End 2019/20 report, we remain optimistic that H3 will hold to it's revised 2020/21 budget. The financial goal is to achieve (if not exceed) the original direct operating budget under the current long term plan.

67,333
people attended events at H3 Venues in Q1

1.2 - CLAUDELANDS Q1 SUMMARY

- Across Q1 Claudelands was able to operate under level 1 and level 2 restrictions and hosted a range of events. To ensure the safe delivery of these events, H3 implemented several safety protocols and increased public messaging relating to COVID-19.
- In early July, crowds enjoyed the first live concert at Claudelands since early 2020, with leading NZ reggae band L.A.B entertaining over 4000 people in the Arena. The Arena was also home to three Magic netball games attracting 5300 attendees during August.

- The venue also had two important community events take place - Eid Al Adha and Council's Citizenship Ceremony. Throughout the quarter, the popular Hamilton and Cambridge Farmers Market took place each Sunday attracting consistently strong crowds.
- During September, 22 business events such as meetings and workshops also took place.

1.3 - STADIA ACTIVITY SUMMARY

FMG STADIUM WAIKATO

- FMG Stadium Waikato played host to three Super Rugby Aotearoa games under level 1. Crowd numbers were high for these come back games.
- The venue also hosted three Mitre-10 Cup home games, with two games held under level 2 COVID-19 restrictions. This meant there were no public ticket sales and the venue was opened for limited corporate and season members access only. Fortunately, for the third home game the restrictions were dropped to level 1 so the public could attend the game.
- Council and FMG's Naming Rights agreement for the stadium includes a target for annual televised events. Due to the loss of five scheduled televised events (four Chiefs games and one All Blacks game) this target was not achieved. This results in a 3.33% reduction in the naming rights fee for the year 1 October 2019 – 30 September 2020 as per the contract. .

SEDDON PARK

- Seddon Park began Q1 preparing for the upcoming domestic and international cricket season due to start in Q2. Progress also continued on the new staff facilities building, due to be completed in time for the 2020/21 summer cricket season.

1.4 OTHER - FOUNDERS THEATRE

- Founders Theatre remains closed. A final decision on the future of Founders is scheduled to be made by Council to inform the 2021-31 Draft Long-Term Plan. In Q1 Council approved further consultation with the community on options for the future of the Founders Theatre site, presenting three options for feedback.

    Option 1 – Remove the theatre and create a basic park
    Option 2 – Remove the theatre and create a multi-purpose park
    Option 3 – Create something new from the theatre building

- The community engagement will take place in Q2 and the outcome of this will be reported back to Council in December 2020 for a decision on the future of the site.

Attachment 1

Item 11

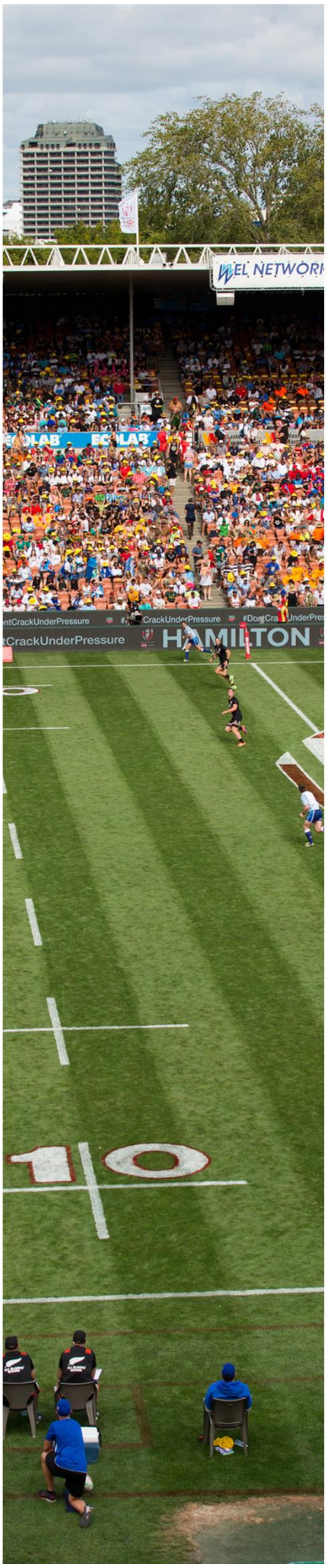
2. FINANCIAL SUMMARY

2.1 FINANCIAL SUMMARY 2020/21

TABLE 1: RESULT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2020

Prior YTD Actual 2019-20		Actual YTD	Budget YTD	Variance favourable/ (unfavourable)	Annual Budget
$000		$000	$000	$000	$000
	Revenue				
-	Subsidies and Grants	-	-	-	-
-	Capital Revenue	-	-	-	100
2,327	Revenue from Activities	1,186	675	511	3,906
2,327	**Total Revenue**	**1,186**	**675**	**511**	**4,006**
	Direct Operating Costs				
897	Cost of Sales	480	142	(338)	1,085
1,334	Personnel Costs	1,228	1,297	69	5,184
526	Operating and Maintenance costs	520	419	(101)	2,008
13	Professional Costs	23	44	22	198
222	Administrative Costs	178	182	4	778
383	Property Costs	405	348	(57)	1,466
3,375	**Total Direct Operating Costs**	**2,834**	**2,432**	**(402)**	**10,718**
(1,048)	**Direct Operating Surplus/(Deficit)**	**(1,649)**	**(1,757)**	**109**	**(6,712)**
	Indirect Revenue				
32	Interest Income	14	20	(6)	79
	Indirect Overhead Costs				
1,378	Depreciation and Amortisation	1,184	1,354	170	5,417
599	HCC Overhead Allocation	603	743	140	2,973
451	Finance Costs	283	369	87	1,477
2,429	**Total Indirect Operating Costs**	**2,070**	**2,467**	**397**	**9,867**
(2,397)	**Net Indirect Costs**	(2,056)	(2,447)	391	(9,788)
(3,446)	**Net Surplus/(Deficit)**	**(3,705)**	**(4,204)**	**499**	**(16,501)**
-	Gains and Losses	-	-	-	-
-	**Total Gains and (Losses)**	-	-	-	-
(3,446)	**Surplus/(Deficit)**	**(3,705)**	**(4,204)**	**499**	**(16,501)**

The financials presented exclude Founders Theatre for reporting purposes. Any prior year comparatives reflect this also



NOTES

2.2. REVENUE

- Favourable due to additional volume of events incurred in Q1 against our budget phasing. Budget phasing assumed events would be slower to return.

OPERATING EXPENDITURE

2.3 COST OF SALES

- Additional costs relate to the uplift in revenue against Q1 budget.

2.4 OPERATING AND MAINTENANCE COSTS

- Additional catchup maintenance costs, utilising the reduced event timing to complete key maintenance activities.

2.5 PROPERTY COSTS

- Additional costs due to COVID-19 cleaning regimes, along with ensuring pest management activities are up to date after the shutdown period.

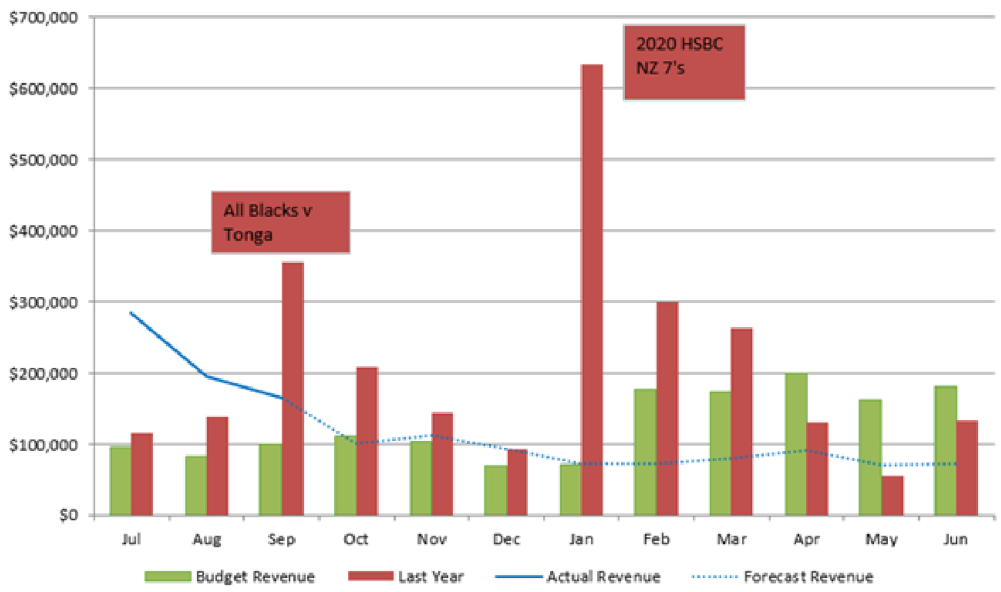
REVENUE SUMMARY

2.6 - GRAPH 1: 2020/21 H3 REVENUE VARIANCE TO BUDGET (EXC. CAPITAL) FOR PERIOD 1 JULY TO 30 SEPTEMBER 2020

- H3 revenue budgets were revised at the onset of COVID-19 in February 2020 with a conservative approach to revenue due to limitations on holding events. Events bounced back faster than expected which is reflected in the favorable result for the quarter.
- Total revenue for the quarter was above budget by $512k (76%).
- Conference revenue was $137k below budget due to no conferences being held in the first quarter. When budgets were set, H3 had several conferences booked which subsequently cancelled resulting in this variance.
- Sporting events revenue was $386k above budget with higher than expected event volumes due to the commencement of Super Rugby Aotearoa, Mitre-10 Cup and ANZ Premiership Netball season and attendances were abnormally strong.
- Functions event revenue was $41k below budget due to less event volume.
- Performance event revenue was $24k below budget due to less event volume.
- Exhibitions revenue was $184k above budget, driven by longer than expected hire days. This was substantially due to the CBAC testing station based at Claudelands for an extended period.

STADIA RESULT

2.7 - GRAPH 2: 2020/21 STADIA REVENUE FOR THE PERIOD 1 JULY 2020 - 30 JUNE 2021



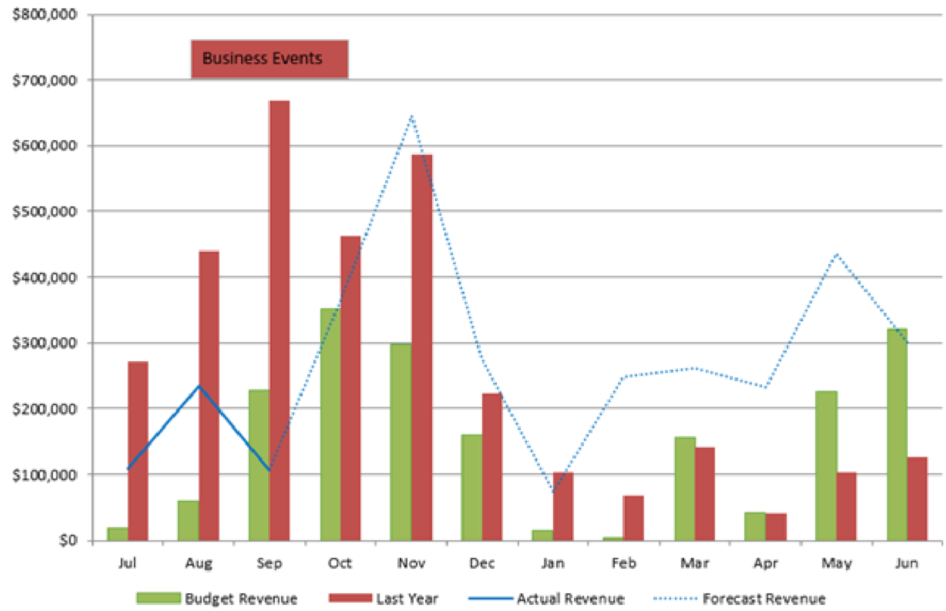
2.7.1 - TABLE 2: STADIA SUMMARY PERIOD 1 JULY - 30 SEPTEMBER 2020

	Actual YTD	Budget YTD	Variance Favourable/ (unfavourable)	Annual Budget
	$000	*$000*	*$000*	*$000*
Revenue				
Subsidies and Grants	-	-	-	-
Capital Revenue	-	-	-	100
Revenue from Activities	701	320	381	1,750
Total Revenue	**701**	**320**	**381**	**1,850**
Direct Operating Costs				
Cost of Sales	271	33	(238)	465
Personnel Costs	508	588	80	2,351
Operating and Maintenance Costs	280	273	(7)	1,386
Professional Costs	17	24	8	112
Administrative Costs	83	88	5	376
Property Costs	209	201	(8)	865
Total Direct Operating Costs	**1,367**	**1,206**	**(161)**	**5,555**
Direct Operating Surplus/(Deficit	**(666)**	**(886)**	**220**	**(3,705)**

- Total Stadia revenue for year to date is 120% above budget driven by the commencement of Super Rugby Aotearoa and the Mitre-10 Cup, which were unbudgeted due to these events not being confirmed at time of budget setting.
- This was offset by additional costs related to the revenue uplift.

CLAUDELANDS RESULT

2.8 - GRAPH 3: 2020/21 CLAUDELANDS REVENUE FOR THE PERIOD 1 JULY 2020 - 30 JUNE 2021



2.8.1 - TABLE 3: CLAUDELANDS SUMMARY PERIOD 1 JULY - 30 SEPTEMBER 2020

	Actual YTD	Budget YTD	Variance Favourable/ (unfavourable)	Annual Budget
	$000	$000	$000	$000
Revenue				
Subsidies and Grants	-	-	-	-
Capital Revenue	-	-	-	-
Revenue from Activities	485	355	130	2,156
Total Revenue	**485**	**355**	**130**	**2,156**
Direct Operating Costs				
Cost of Sales	209	109	(100)	620
Personnel Costs	721	709	(11)	2,833
Operating and Maintenance Costs	240	146	(94)	622
Professional Costs	6	20	14	86
Administrative Costs	95	95	(1)	402
Property Costs	196	147	(50)	600
Total Direct Operating Costs	**1,467**	**1,226**	**(241)**	**5,163**
Direct Operating Surplus/(Deficit)	**(983)**	**(871)**	**(111)**	**(3,007)**

- Total Claudelands revenue year to date is 37% above budget, due to events returning earlier than expected. This is offset by additional costs related to the revenue uplift.
- Maintenance overspend relates to a catch up of required maintenance. As this venue ages, these costs will increase and be reflected in our budgets accordingly.

3. ACTIVITY SUMMARY

3.1: NUMBER OF EVENTS, HIRE DAYS AND ATTENDANCE - 1 JULY TO 30 SEPTEMBER 2020

198 Events at H3 Venues

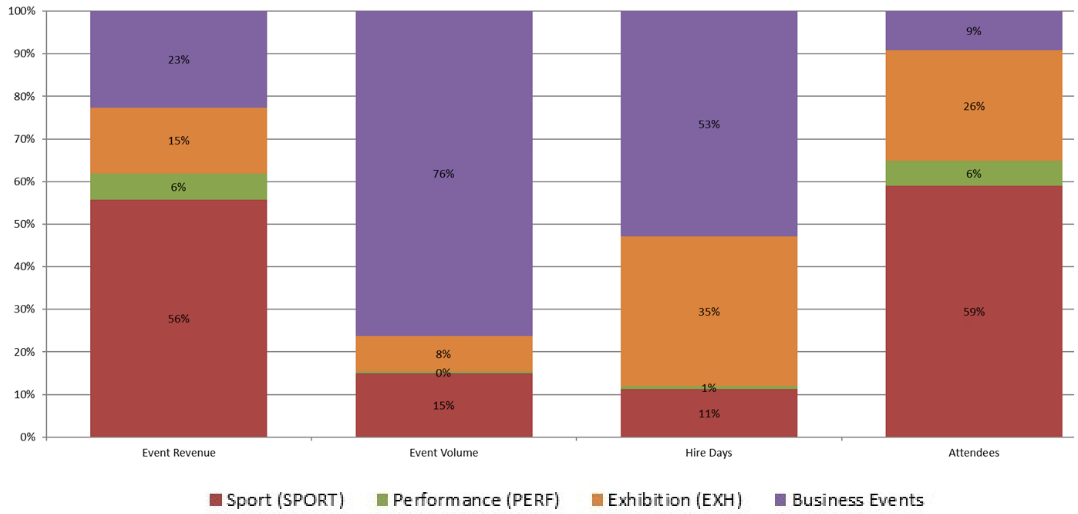
298.5 Hire Days across H3 Venues

67,333 attendees at H3 Venues

3.2 - TABLE 4: BY EVENT TYPE FOR THE PERIOD 1 JULY - 30 SEPTEMBER 2020

Event Type	Number of Events	Hire Days	Attendance
	Q1	Q1	Q1
Business Events	149	120.75	5821
Exhibition	20	152.25	17583
Performance	1	1.75	4026
Sport	28	23.75	39903
Total	**198**	**298.5**	**67,333**
FY 2019/20 comparison	314	283.75	127,592

3.3 - GRAPH 4: BUSINESS MIX BY EVENT TYPE FOR THE PERIOD 1 JULY - 30 SEPTEMBER 2020



3.4 - 2018-28 10-YEAR PLAN KPIS

TABLE 5: FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2020

Measure	Annual Target	Q1
The number of people attending events at H3 Venues	441,000	67,333

- We are forecasting to not achieve the annual target due to the impacts of COVID-19.

3.5 - OTHER NON-FINANCIAL KPIS

CUSTOMER SATISFACTION

TABLE 6: FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2020

Survey Type	Q1
Business Events Hire Survey	9.1
Ticket Events Hire Survey	N/A

- There were no ticketed events surveyed in Q1.

3.6 - KEY SUPPLIERS

- There were no contracts issued in Q1.
- Recognising the impact COVID-19 is having on the event industry, we are working closely with key suppliers to manage contractual obligations with the focus on minimising costs where able on an ongoing basis.

3.7 - OUR PEOPLE

- H3's permanent staff turnover across the first quarter was 0%.
- H3 has six unfilled vacancies on hold pending further business uplift as a part of the COVID-19 response plan.

3.8 - HEALTH AND SAFETY

TABLE 7: INJURIES, MEDICAL TREATMENT AND LOST TIME INJURIES FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2020

	Q1	Notes
Injuries	2	Staff injuries **(minor)**
Medical Treatment	0	N/A
Lost Time Injuries	0	N/A

Key Health and Safety highlights in Q1 included:

- Q1 focus was returning to work in the office and at venues and adjusting how we work at Alert Level 2.
- Staff mental health check– implemented workshop with Vitae available to all staff.
- Implementing checks and reviewing processes to ensure our team were prepared for getting back to work and events restarting.
- Implementation at Claudelands and FMG Stadium Waikato of 'Whos On Location', a digital sign in/out system.
- Completed a Culture Snapshot - generally scored high with improvement area to focus on - reporting and learning from safety incidents plus a few asset, equipment and process improvements identified.
- FMG Stadium Waikato's public lift replaced
- Created and introduced 'Chat It or Act It' - an emergency response activity for teams; extremely positive response from staff; encourages discussion, act out scenarios and prompts random drills
- Implemented process for operation of events at Alert Level 2 - held Waikato Rugby with public in bubbles and safe processes in place.

4. MARKETING HIGHLIGHTS

4.1 SUMMARY

- H3's websites (h3group.co.nz, hlive.co.nz, Claudelands.co.nz, fmgstadiumwaikato.co.nz, seddonpark.com and spoiltforchoice.co.nz) had a combined total of 24,076 web visitors throughout the quarter. The site with the most visitors during this time was the Claudelands website with 10,587 – this was also the site with the most visitors on a single day with 514 visitors to the site on 11 July, the day of our sold out event, L.A.B.

4.2 DATABASE SEGMENTATION

- The HLive database is currently at 49,286 active subscribers with 884 new subscribers this quarter. 86% of new subscribers signed up through our online form. 14,706 subscribers or 30% of the HLive database is segmented which is approximately a 5% percentage point increase from the last quarter. We expect the portion of our database that is segmented to increase slowly over time.
- The top locations based on where our audience was located when opening our emails was Auckland, Hamilton and Tauranga. Surprisingly, Aucklanders were our most engaged audience for the quarter.
- During the quarter, seven electronic direct mails were sent to the HLive database. On average these had an open rate of 16.8% and an average click rate of 0.95%.

4.3 SOCIAL MEDIA ENGAGEMENT

- Facebook is our primary social media platform for communicating and engaging with our audiences. Below we share information about the posts that had the highest engagement throughout the quarter for each of our Facebook pages:

AS AT 30 SEPT 2020

67,737

PAGE VIEWS ACROSS H3 SOCIAL MEDIA PAGES

HI LIVE .CO.NZ
HAMILTON'S EVENT HOTSPOT

AS AT 30 SEPT 2020

49,286

SUBSCRIBERS TO HLIVE DATABASE

@fmgstadiumwaikato

- The post with the highest reach was a post announcing the first Waikato Mooloo game would be closed to the public. This post reached approximately 13,700 people which was a good result as it was an important message to get out to the public.
- The post with the highest engagement was a Chiefs pre-event information post which contained COVID-19 messaging for attending a game. The post had 1,250 post engagements and 951 post clicks.

@FMGstadiumwaikato - August 2020

@Claudelandsnz

- The post with the highest reach and engagement was a post with instructions for the Claudelands CBAC testing station. There was a rapid increase in people wanting to be tested, resulting in the testing station needing to close early for the day. People took to social media to raise their concerns. This resulted in a post that had 26,189 reaches with 3,677 engagements.

@HLivenz

- HLive posted about H3 venues being lit in red to raise awareness for the businesses and people in the events industry that have been negatively affected by the COVID-19 lockdowns.
- This post had the highest reach and engagement for the quarter with 10,399 people reached and 769 engagements

#wemakeevents September 2020

- It's evident that COVID-19 has buoyed our engagement across all our channels during a time when events have become more infrequent.

4.4 OTHER

- We've been experimenting with google posts. Google posts appear in our 'google my business' profile as well as in google maps. The Google post with the highest amount of views was for H3's Christmas packages with 1,270 views.

5. SUSTAINABILITY HIGHLIGHTS

5.1 SUMMARY

- Over the last year we've seen an increase in demand from our clients and users to have more sustainable initiatives and practices introduced at our venues.
- Our 'Branches of Sustainability' (pictured) inform our way of working in this area, aimed at reducing the negative impact of our venues and activities.
- The introduction of Council's new waste management contractor, Envirowaste, has meant we have been able to introduce new waste management procedures at our venues and divert more waste from landfill.

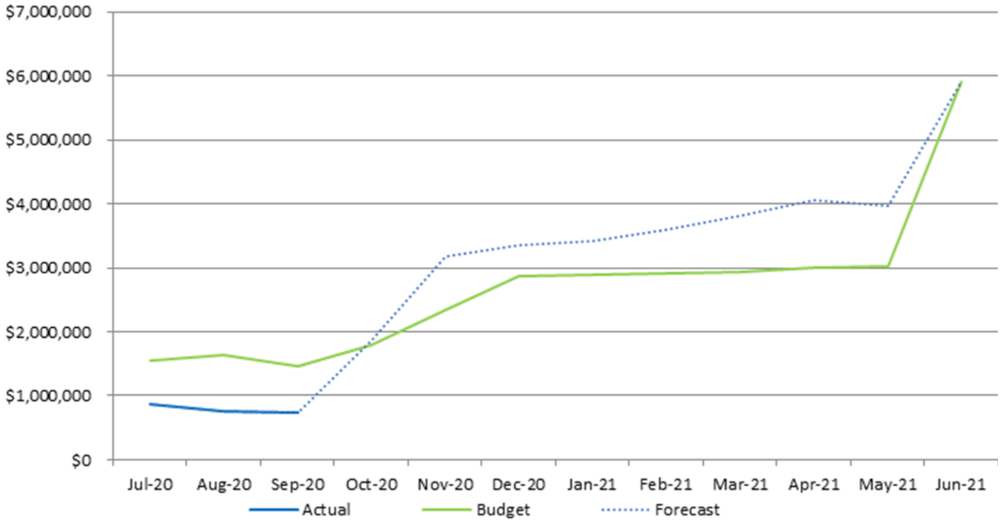
5.2 HIGHLIGHTS

Sustainability activity undertaken in Q1 included:

- Memorandum of Understanding between H3 and Sweet Tree Honey signed to introduce bee hives at Claudelands in Q2.
- Seeds sown at Claudelands (on large dirt bund behind Barn) for a wildflower meadow to help support dwindling populations of native pollinators including butterflies, moths and bees and provide an easy flight path and source of food for incoming bee hives in Q2.
- Introduction of the following waste initiatives at Claudelands and FMG Stadium Waikato:
  - Food scrap and paper towel composting (commercial packing composting in progress)
  - Recycling of plastics 1-7 and plastic and metal bottle cap recycling
  - E-waste bin
  - Lawn clipping commercial composting
  - Plastic pallet wrap recycling
  - Additional signage installed across venues (bike parking, water fountains etc.)

6. CAPEX & ASSET MANAGEMENT

6.1 - 2020/21 CAPEX SPEND ACTUALS VERSES BUDGET GRAPH 5: FOR THE PERIOD 1 JULY 2020 - 30 JUNE 2021



- H3's capital programme is on track for delivery for the year.

6.2 - ASSET MANAGEMENT

6.2.1 FMG STADIUM WAIKATO LIGHT TOWER WORKS

- Investigation and detailed design work continues which will inform the scope and schedule of this work. This project will be incorporated into the FY21-31 Long Term Plan, with timing to occur over the first two years.

6.2.2 FMG STADIUM WAIKATO RENEWAL WORKS

- PASSENGER LIFT REPLACEMENT – has been installed and is operational.
- TIE RODS – work is continuing on the replacement of the tie rods that connect the Brian Perry stand roof and the light towers. Work is on schedule to be completed by the end of Q2.

6.2.3 SEDDON PARK STAFF FACILITIES

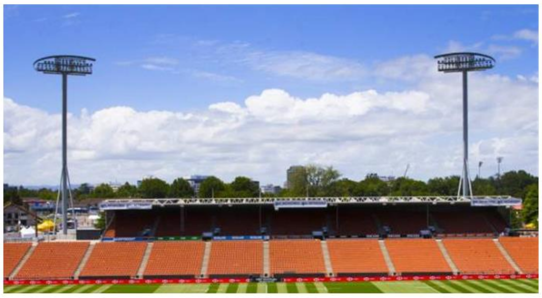
- The Seddon Park Staff facilities project was delayed due to Covid-19. The project is now completed awaiting furnishing and is ready for the start of the upcoming cricket season in Q2.

6.2.4 WORKFORCE PLANNING

- As part of our transformation projects, H3 is implementing a toolset that works alongside our event management system to provide integrated staff scheduling and rostering.
- The software is in its final stage of installation and will be rolled out across H3 by end of Q2.

6.2.5 OTHER PROJECTS UNDERWAY

- Venue security
- Uplift in venue sanitary protocols
- WEL Stand Seismic 1st stage



Light Towers - FMG Stadium Waikato

Staff Facilities - Seddon Park

7. FORWARD POSITION

Item 11

Attachment 1

7.1 Looking Forward

- The ongoing impact of COVID-19 remains a key focus for the business although the adjustments required are soon to be the 'new norm'. Further COVID-19 alert level changes will also be part of the new landscape.
- As we progress, it is clear that our efforts to improve our 'sanitary venues' approach, site and venue security, venue technology and workforce planning are becoming a singularly integrated exercise.

G3TTING JOBS BACK FOR OUR MAT3S

Item 12

Council Report

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Tyler Gaukrodger	**Authoriser:**	Becca Brooke
Position:	Governance Advisor	**Position:**	Governance Manager
Report Name:	Open Information only reports		

Report Status	*Open*

1. The following reports are for information purposes only:
   - General Managers Report
   - Economic Update 28 October 2020

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Economic Development Committee receives the following information only reports:
   a) General Managers Report; and
   b) Economic Update 28 October 2020.

Attachments - *Ngaa taapirihanga*

Attachment 1 - General Managers Report

Attachment 2 - Economic Update 28 October 2020

Council Report - Information Only

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Jen Baird	**Authoriser:**	Jen Baird
Position:	General Manager City Growth	**Position:**	General Manager City Growth
Report Name:	General Managers Report		

Report Status	*Open*

Purpose - *Take*

1. To inform the Economic Development Committee of topical issues, areas of concern and items which need to be brought to the member's attention, but which do not necessitate a separate report.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Economic Development Committee receives this report.

Executive Summary

3. This report is to inform the Economic Development Committee of topical issues, areas of concern and items which need to be brought to the member's attention.
4. Staff consider the matters in this report to have low significance and the recommendations comply with the Council's legal requirements.

Economic Innovation Project update

Technology sector

5. As previously reported, the technology sector was seen as a priority through the early stages of this project. Three key focus areas were: raising the profile of Hamilton as the heart of technology for New Zealand, growing and attracting talent and improving our approach to economic development.
6. Council team's focus for the last quarter has been to advance the work to establish Hamilton as NZ's heart of technology.
7. This work has started and aims to create a unifying 'narrative' that demonstrates the synergetic value of the industry and differentiates Hamilton from other locations to attract business and growth.
8. The work will engage with technology and innovation companies already in Hamilton and those who many consider a relocation in order to gain the insights required. This work will be shared in draft form with the technology sector working group and Te Waka before being reported back to this Committee.

9. Council will then lead the development of a sector plan to sit alongside the plans being developed by Te Waka to support and drive economic development activity for our organisation.

Education sector

10. Te Waka is leading the Education sector work and has created an Advisory Group for the Waikato Regional International Education Plan.
11. As part of the exploration of the COVID response for International Education, the University of Waikato will be leading a session to explore options for advocacy and leadership the Waikato may have to initiate a return of international students. The Mayor and Chair of this Committee will be invited to attend this session.
12. Work on the Education sector plan is progressing.

Agenda Work Programme

13. The foundational phase of the work programme began with the recruitment of a Senior Economic Development Analyst. Cara Ferris will be assisting with research, developing insights, branding, marketing and messaging for the remainder of the 20/21 Fiscal Year.
14. Our first priority is to deliver a refreshed investment prospectus that will highlight Hamilton's operational advantages, strategic location, labour force, educational institutions, liveability, diversity, culture and similar factors that resonate across a wide range of industries.
15. A series of focused, industry-specific materials will follow and align with work being done as part of the Economic Innovation Project.
16. This phase of work is targeted for completion by the end of March 2021 and will comprise the core components of an updated web presence. The site, designed to replace "Hamilton Invest", will be a key resource for information about investment and growth opportunities in Hamilton.
17. The ensuing work programme will be refined in the coming months and executed from April 2021 onwards. It will consist of proactive activities that tell our economic development story while directly showcasing opportunities to business and industry leaders, asserting Hamilton as an ideal place for business investment and growth.

Te Waka Strategy & Agenda Alignment

18. Staff have been meeting regularly with Te Waka to align organisational roles and identify opportunities to incorporate their efforts into elements of Council's economic development programme.
19. Council is best positioned to lead business and investment attraction efforts for Hamilton, particularly as we refine value proposition(s) and develop authentic messaging. Te Waka will be tasked with amplifying our message and generating additional opportunities for investment creation in Hamilton.
20. Te Waka's work in Maaori Economic Development will be supported by Council as we strengthen our collaboration with Waikato Tainui in this space. Te Waka and Council's partnership on sector development and the Economic Innovation Project will also continue.

Other Work

21. Initial work has begun to develop a process of identifying strategic businesses and delivering a letter welcoming or congratulating them on behalf of the Economic Development Committee.

22. The goal is to establish a connection and build partnerships between the business community and the Committee.

23. Examples include Urban Homes (relocated offices, new build in CBD), Summit Scaffolding (new business, new build at Airport), Vetro (new food business, renovated building in CBD).

Wellbeing Considerations

24. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

25. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report. The recommendations set out in this report are consistent with that purpose.

26. There are no known social, economic, environmental or cultural considerations associated with this matter due to this report being for information only.

Risks - *Tuuraru*

27. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

28. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation(s) in this report has/have a low level of significance.

Engagement

29. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

There are no attachments for this report.

Council Report - Information Only

Committee:	Economic Development Committee	**Date:**	11 November 2020
Author:	Stafford Hodgson	**Authoriser:**	Jen Baird
Position:	Programme Manager - Economics and Policy	**Position:**	General Manager City Growth
Report Name:	Economic Update 28 October 2020		

Report Status	*Open*

Purpose - *Take*

1. To update the Economic Development Committee on recent Covid-19 economic impacts.
2. The *Economic Update – 28 October 2020* report is attached to this report.

Staff Recommendation - *Tuutohu-aa-kaimahi*

3. That the Economic Development Committee receives the report.

Background - *Koorero whaimaarama*

4. The Growth Funding & Analytics unit has provided regular updates on the economic impacts of Covid-19 to Elected Members since the early stages of the pandemic. This is the latest update (as at 28 October 2020) and includes the latest national, regional and council-generated economic data.

Attachments - *Ngaa taapirihanga*

Attachment 1 - Economic Update 28 October 2020 .

Item 12

Attachment 2

COVID-19 ECONOMIC UPDATE:

28 October 2020

HAMILTON CONSENTING IN FOCUS

This month we are looking at consenting in more depth. Covid-19 has had some impact on consenting, however, it is well above what we expected when we developed initial forecasts during the early stages of Covid and Lockdown. Council collects data on four stages from subdivision consent through to the issuing a Code of Compliance Certificate (CCC) when a home is completed. The trends seen in the 9 months to 1 October 2020 are discussed in this update.

Subdivision Resource Consent → 224C Section and Unit Titles → Building Consent → Code Compliance Certificate (CCC)

A subdivision resource consent lets you divide your land into separate properties and allows you to begin works on your subdivision.

A 224C certificate is issued once all requirements of the subdivision consent are completed. This allows a title to be issued for each section.

Building consents are required to begin building. Consents reported here are for new dwellings only.

A Code Compliance Certificate is issued once building work is compliant with the building consent.

Subdivisions

A subdivision resource consent is needed to subdivide land into separately owned properties. Site works can begin once this consent has been granted and a survey plan is approved. Once all of the conditions of the consent have been met, a 224C certificate can be issued. This allows a subdivision to get titles issued by LINZ for each property.

Between January and September 2020 the number of residential subdivision lots lodged was 1,029 down 640 lots on 2019. We estimate that there will be about 1,400 lots lodged by the end of the year. The pattern around infill and greenfield consents has remained consistent with 52% of consents being for infill developments in 2020.

In terms of residential consents granted, so far this year we are down 120 lots on 2019. There has however been a swing towards infill development with 69% of the 967 lots granted to September 2020 being in infill areas. Some of the big infill projects include Rawhiti Village in Frankton (89 units), Quentin Drive SHA (110 lots), the BDL Land project in Horsham Downs (77 lots) and AKJL development in Rotokauri (39 lots). The ratio of infill to greenfield consents can vary because infill consents tend to be smaller so they are generally processed much quicker. In the first 9 months of 2020 the only large greenfield consent granted was the BDL Land Limited development in Horsham Downs, normally we would expect to see 2 or 3 consents of over 100 lots.

There are a few large projects still in the pipeline that have been lodged by not granted, including 503 lots in Greenhill, 250 lots in Peacocke and 958 lots in Rotokauri. Most of these were lodged in 2019.

In terms of sections titled, in the 9 months to September 2020 there were 986 lots titled which is higher than previous years (2019 – 939; 2018- 879). If we continue at this rate, we could see a historic high of approximately 1,300 sections titled by the end of the year.

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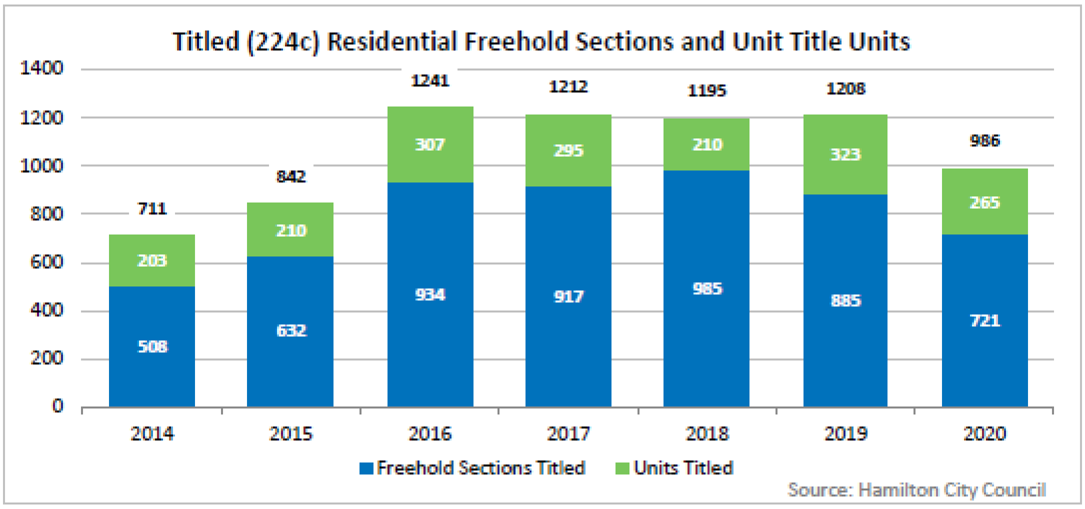
Attachment 2

Item 12



Building consents for new dwellings

A building consent is formal approval to carry out building work in accordance with approved plans. The data presented here is for new builds rather than alterations and additions.

In the 9 months to September 2020, consents for 1,014 new dwellings were lodged. We are anticipating a 2020 full year figure of around 1,350 dwellings to be lodged. While this is a reasonable drop from the 1,659 consents lodged in 2019, it does reflect that 2019 was a record year for consenting in Hamilton. The current consenting levels are slightly higher than the levels seen throughout most of 2018.

Retirement village development has been high in recent years. Growth in the sector continued in Rototuna with Ryman Health lodging consent for 67 new units and Summerset for 21 new units this year.

So far this year 926 new dwellings have been granted suggesting that there will be around 1,250 dwellings in 2020. This is in line with the NIDEA low projection of 1,218 new households in 2020. We have seen a slight increase in the proportion of consents for standalone houses from 36% in 2019 to 40% in 2020 so far.

Development continued to be heavily focused around Rototuna with most consents granted in the Horsham Downs Census Area unit (138 dwellings) and Sylvester (106 dwellings). Ruakura/Greenhill and Peacocke also saw high levels of activity (61 dwellings and 55 dwellings respectively).

As land and construction costs have increased, we have seen a decrease in the average floor area of detached dwellings. In 2020 the average floor area of a detached house was 175sqm compared to 200sqm in 2014. The cost per square meter, as reported in building consents, has increased from $1,500 in 2014 to $2000 in 2020. Townhouses and duplex units have moved in the opposite direction with the average floor area in 2020 being 126sqm compared to 100sqm in 2014. The average cost per square meter for an attached dwelling is currently around $1,600sqm. Research suggests that attached dwellings with larger floor areas are more attractive options for many buyers, especially when compared to the cost of a detached dwelling.

New dwellings completed

Once a dwelling has been completed in accordance with the plans, Code Compliance Certificate (CCC) can be issued. During Lockdown building sites were shut down and building inspections were unable to take place. This led to a backlog of work for both Council staff and builders which has resulted in an increased lag time between the time a dwelling is consented to the issuing of a CCC to 10 months. Despite this, we are on track to achieve 1,300 CCCs this year, a new record for Hamilton City. June, July and September were all particularly high months for CCCs. Council also anticipates the time between consent granting and CCC to increase due to the very high volume of dwellings consented last year.

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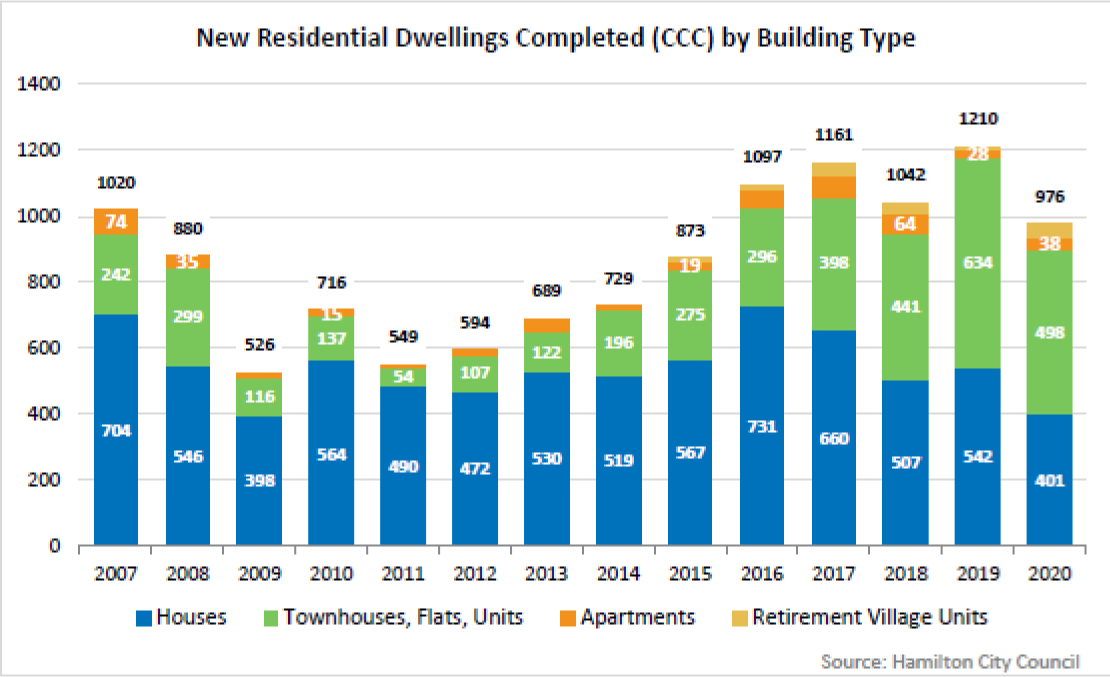

Hamilton currently has 1,110 dwellings under construction and another 425 dwellings have had consents granted but have yet to start construction. Residential construction within the CBD has slowed in 2020 with consents lodged for just 9 units compared to 33 in 2019 and 69 in 2018. The CBD is a small part of the residential market and fluctuations are common.

Graphs and more consenting data can be found at the Council's Covid-19 Economic Reporting Dashboard.

NEW ZEALAND CONSENTING CONTEXT

New Zealand has seen an increase in consenting over the 12 months to June 2020 (up 8.1%). Consenting data for New Zealand is released quarterly. The data for the September 2020 quarter is expected in the coming weeks. Hamilton had the fourth highest number of houses consented (669) in NZ in the first half of 2020, a shift down 1 place from the last 2 years. Auckland (7,069) and Christchurch (1,534) were the two top consenting Authorities. Third place was taken by Selwyn District, which jumped up from 7th place in 2019. Selwyn District had all time high number of detached dwellings consented in May (151) and Jun (156) plus strong retirement village growth (53) in the same months. The traditional high growth areas of Tauranga (668), Queenstown (666) and Wellington (574) ranked from 5th to 7th place. Waikato and Waipa stayed in the top 10 with 423 and 291 houses consented respectively.

House prices have continued to increase despite concerns early on in the pandemic that they could fall by more than 10%. Increases in house prices have been driven by low interest rates and the lack of secure and good returns on other investments.

OTHER OBSERVATIONS

Globally the economic outlook continues to get worse. Cases of Covid-19 reached a new daily record exceeding 400,000 per day on 16 October, indicating that the pandemic still has a long way to run. Europe in particular has seen an exponential rise in cases throughout October. As a result of the ongoing problems caused by the pandemic, the global economic growth forecasts are looking grim. While New Zealand has been doing well in terms of controlling the virus, our reliance on international trade will inevitably be hampered by the resurgence. Infometrics expect export demand will continue to dampen as many restaurants around the globe remain closed. Our wine and meat sectors are particularly at risk on this front.

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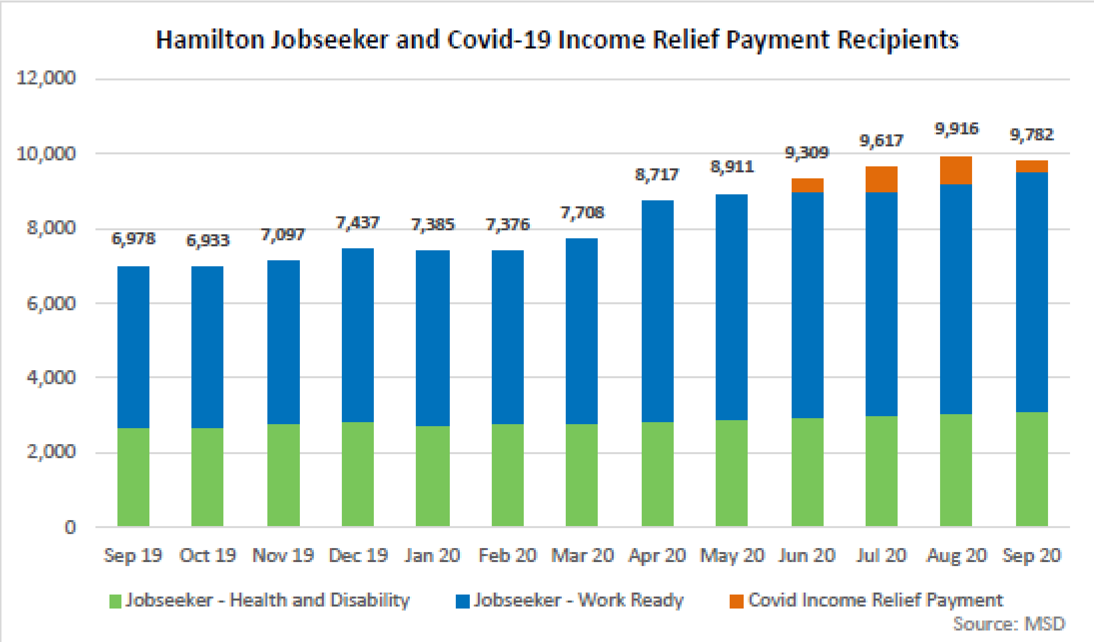
The NZ election results saw a huge swing to the left with Labour able to govern alone. Discussions are currently underway between Labour and the Greens with final talks due to wrap up this week. A wealth tax has been ruled out by Labour which should reassure some sectors of society. The preliminary results of the two referendums are also due at the end of this week. Any impact on the economy and business confidence will be seen in the weeks to come.

New Zealand has had a rebound in the NZ Activiy Index (NZAC) in September, with activity up 1% on September 2019. The NZIER Quarterly Survey of Business Opinion also showed improvement in sentiment and activity indicators, although there was an even split with some businesses doing better while others experienced a fall.

Unemployment is expected to peak in 2021, with another wave of unemployment expected in the coming months. The Covid-19 income relief payment is winding up for many recipients, resulting in a net decrease of 416 recipients in Hamilton between August and September. The number of Jobseeker – Work Ready recipients increased by 207 (3.4%) over the same period.



Further detail on the New Zealand economy can be found here Treasury: Weekly Economic Update.

Disclaimer

Information contained in this paper was researched from a range of sources by the Growth Funding & Analytics Unit. Our best efforts have been made to ensure the information in this document is correct and that any conclusions are based on the information available at the time. This information will be continuously changing as the situation changes almost daily. COVID-19 has had a massive impact on the local, national and global economies. The disruption is unprecedented, which makes predicting what will happen at a national level difficult let alone for Hamilton. This report will be updated fortnightly to include the latest information and projections from leading sources.

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Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Confirmation of the Economic Development Committee Public Excluded Minutes of 8 September 2020 C2. H3 Activity Report - Verbal Update C3. Victoria Street Properties Options	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)
Item C3.	to maintain legal professional privilege	Section 7 (2) (g)
	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)