

Notice of Meeting:

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

Date: Thursday 21 February 2019
Time: 9.30am
Meeting Room: Council Chamber
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Finance Committee OPEN LATE AGENDA

Membership

Chairperson	Cr G Mallett
Deputy Chairperson	Cr R Pascoe
Members	Mayor A King
	Deputy Mayor M Gallagher
	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr A O'Leary
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman
	Cr R Hamilton
	Maangai Bella Takiari-Brame

Quorum: A majority of members (including vacancies)

Meeting Frequency: Six weekly

Becca Brooke
Governance Team Leader

18 February 2019

Telephone: 07 838 6439
Becca.Brooke@hcc.govt.nz
www.hamilton.govt.nz

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18 February 2019

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

Dear Barry

Letter of Expectation (2019/20) for:

- **Waikato Innovation Growth Ltd, and its subsidiaries (WIGL)**
 - **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 2019/20 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 2019/20 be provided as early as possible and no later than 1 March 2019.

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 2019/20. We expect the Company's strategic direction, as set out in its current SOI 2018/19 will continue in the SOI 2019/20 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.

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

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 approval of the Melody Dairies Limited Partnership by all partners and the commencement of the major construction 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 021 741 021.

Yours sincerely

Garry Mallet
Chair
Finance Committee
Hamilton City Council