

## 2.12 THE FOOD FACTORY

PGF Application		For: Approval	
<b>Applicant:</b>	Picot Productions Ltd	<b>Pipedrive ID #</b>	Commercial
<b>Entity Type:</b>	Company The applicant will establish a Trust to operate the facility once construction is complete	<b>PGF Funding Sought:</b>	\$ Commercial Inform
<b>Region</b>	<b>Top of the South</b>	<b>Total Project Value:</b>	\$ Commercial Information
<b>Tier:</b>	<b>2 - Sectors</b>	<b>Co-contribution rate:</b>	Comm %
<b>Sector:</b>	<b>Food and Fibre</b>	<b>Funding Structure:</b>	Grant
<p><b>We recommend that SROs:</b></p> <p>a) <b>Support the PDU recommendation to Approve</b> \$778k from the PGF fund towards The Food Factory because:</p> <ul style="list-style-type: none"> <li>• The project will be an enabler for economic growth</li> <li>• The project has strong regional support</li> <li>• The project will build on a regional competitive advantage providing strong additionality subject to: <ul style="list-style-type: none"> <li>- a final and detailed budget for all project components funded by the PGF, and, modelling of ongoing opex;</li> <li>- provision and approval by the PDU of the lease (currently being developed) which will outline the responsible party/ parties for the annual lease;</li> <li>- due Diligence on all project key personnel; and</li> <li>- due diligence on the Trust, Trust deed and trustees that will be established to manage the facility post completion.</li> </ul> </li> </ul> <p>b) <b>Note</b> The project is presented to SROs with the <b>Commercial Information</b>. The PDU is recommending construction costs/ fit out be met by the PGF but ongoing opex be met by the region - the difference in the two figures.</p> <p>c) <b>Note</b> Funding for this project is recommended as a grant. Although the facility will charge clients rent, this is not on commercial terms and preliminary modelling shows the facility <b>Commercial Information</b>.</p> <p>d) <b>Note</b> The project meets PGF co-funding criteria. Strong industry support is noted, particularly from the applicant.</p> <p>e) <b>Note</b> The project has strong support from Wakatu and industry members who have agreed to supply commercial equipment to the facility. Additionally, letters are submitted from:</p> <ul style="list-style-type: none"> <li>• <b>Commercial</b></li> <li>• <b>Information</b></li> </ul>			

● Commercial Information

- f) **Note** MPI notes there is no such facility in Te Taihū, a point that was noted by MBIE Science/ Sectors team as a point to 'check'.
- g) **Note** MBIE Science/ Sectors notes the work being developed to look nationally at this sector (NZFIN). They have noted this project could potentially be a part of that, with a two way relationship feeding into the network, positive outcomes from the Food Factory, and, receiving knowledge from other facilities.
- h) The PGF has recently funded the Hawkes Bay Food innovation Hub (\$12m of an <sup>Commercial</sup> project) as a grant. While this project shares some similarities, it is a reduced scale project and is not focussed on innovation.

**Proposal:**

This project will establish a stand-alone scale up/ pilot, early commercialisation facility for the region's food and beverage sector. A series of kitchens, each in its own enclosed room and varying in size, will allow entities that have developed products but have not reached full production to test supply logistics, product development, market assumptions & demand in a fully certified and compliant environment. Tenants will rent one of the kitchens for a period of time varying from several weeks to several months (the facility is not a long-term production option). A processing area will provide tenants with the ability to bottle and pack product and a storage area will be available.

Additionally, business mentor assistance will be available (the facility will be located in an industrial precinct close to Pic's main manufacturing facility) to help users make adjustments at that critical stage of product development. The opportunity to derisk scale up will provide the ability to fail fast without incurring significant debt, or, accelerate with confidence having tested concepts and small run production. The opportunity to work in close proximity to other like-minded entities is a further opportunity to incubate and collaborate.

- The applicant is co-funding this project with physical works in the construction of a new purpose built facility. PGF funding will 'fit out' the facility with the equipment required to establish the kitchens, four in all.

- Commercial Information

- The region is acknowledged as having well-established food and beverage entities, including the applicant Pic's, and raw produce. An identified 'hole' in the sector is scale up. Compliance is a significant barrier to entry requiring investment ahead of market penetration.
- A regional facility at this stage of company/ entity development provides the opportunity to funnel a wide pipeline to allow quick success or failure. As such, the facility is an enabler for business development using a well-tested model - New Zealand has similar facilities in Auckland and Lincoln.

**Assessment against the PGF criteria:**

**Eligibility Criteria**

This application is eligible for PGF funding

**Productivity Potential**

See point below

<b>Policy objectives and regional priorities</b>		
Te Taihū does not have a regional economic action plan (currently in development with PGF funding). Identified sectors of competitive advantage include aqua culture, ag/ hort and tourism. This project is seeking to better use ag/ hort opportunities as much of the region's produce leaves as raw product/ commodity.		
<b>PGF Criteria</b>	<b>Assessment Commentary</b>	<b>Rating (0✓ to 5✓)</b>
<b>Link with fund and government outcomes</b>		
Creates permanent jobs	<ul style="list-style-type: none"> <li>Tenants will bring staff to the facility and a small number of people will be required to maintain it. The wider benefit of job creation going forward will be a multiplier effect as successful tenants enter full production.</li> </ul>	✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> <li>Providing a facility that will allow early stage companies/ entities to test their products and concepts without incurring significant debt is acknowledged as a community and regional asset/ benefit.</li> </ul>	✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> <li>Limited although Maori, like any tenant, will be able to access the facility.</li> </ul>	✓
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> <li>N/ A</li> </ul>	
Mitigation of climate change effects	<ul style="list-style-type: none"> <li>Limited</li> </ul>	
<b>Additionality</b>		
Adding value by building on what is already there	<ul style="list-style-type: none"> <li>The region has a well-established industry with significant players. At the other end of the spectrum an identified 'hole' exists. As such, this project is seeking to develop an offering that compliments existing activity.</li> </ul>	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> <li>Note above point.</li> </ul>	✓✓✓✓
<b>Connected to regional stakeholders and frameworks</b>		
Alignment with regional priorities	<ul style="list-style-type: none"> <li>Although the region does not have an economic action plan, F&amp;B and ag/ hort are acknowledged as competitive advantages.</li> </ul>	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> <li>Industry and local government support is evidenced via written support. The applicant notes the full support of Wakatu.</li> </ul>	✓✓✓

<b>Governance, risk management and project execution</b>		
Robust project management and governance systems	<ul style="list-style-type: none"> <li>The project is being driven by Pic Picot. His company has a strong history of industrial facility construction including the recent development of a new processing, tour, shop and restaurant complex in the same industrial precinct. The applicant has outlined a strong project team with extensive experience in industrial construction project delivery.</li> </ul>	✓✓✓✓
Risk management approach	<ul style="list-style-type: none"> <li>The applicant has supplied an R/ M register. This notes risks associated with the nature of the venture. The PDU notes additional risk is present including slippage and the usual risks associated with start-up and early stage project development, including key person.</li> <li>Mitigation is noted in the form of a strong contractor to undertake the construction and an applicant with good experience in developing food grade facilities. A lease back to the developer will mitigate ongoing opex in relation to the facility, although not management opex.</li> </ul>	✓✓
Future ownership / operational management	<ul style="list-style-type: none"> <li>The applicant will have a long-term lease on the property from the developer. The applicant's relationship with the developer (previous facility developments) is noted providing confidence in the lease.</li> <li>A Trust will be established to manage the facility.</li> </ul>	✓✓✓
<b>Analysis of the benefits and costs</b>		
<ul style="list-style-type: none"> <li>It is acknowledged by the PDU that such projects can provide strong opportunities for success, and failure, for facility users. The benefits to the region of such a structure can be argued but the model is not strictly commercial. As such, while opex will be covered (the lease), the initial capital investment to establish the regional asset is hard to fund from the market.</li> <li>The build is estimated to be completed within 8 months with all consents already in-hand. The slab and panel construction is a well-established method and quick to erect. Delivery of the project is noted as February 2020.</li> <li>This opportunity closes an existing and acknowledged hole in the region's F&amp;B, ag/ hort sector.</li> <li>The cost is a grant of \$778k.</li> </ul>		
<b>Financial Analysis</b>		
<p>Pic Picot Productions Ltd will supply administrative and management services. This will be an opex cost for the centre but provides confidence in the ongoing operation.</p> <p>Currently, the project is being run through the applicant's company. Once finished, a Trust will be established to operate it.</p> <p>The Trust will not have debt placed into it but will be responsible to 'break even' on an annual basis.</p> <p>It is recommended that modelling developed with the applicant to test ongoing opex, demand, be a condition of</p>		

funding.

### Funding Arrangements

As PGF funding is allocated to fit out costs, **Commercial Information**

### Due Diligence and Ownership

DD will be completed prior to a funding agreement being signed. Ongoing contractor, if applicable, DD will be undertaken through the project.

### Risk Assessment

The applicant has provided the following R/ M register. The PDU notes the risks provided are reasonable. Key person risks are noted by the PDU. Pic Picot is a key person in this project. Having such a concentrated centre of 'vision' is a project risk, not primarily in the construction phase but in the out years. Financial viability is noted in the R/ M register but this is a significant risk noting this is a new venture.

#	Risk	Mitigation approach	Rating
1	Insufficient tenant demand	<ul style="list-style-type: none"> <li>- Have surveyed interest and indications are positive.</li> <li>- Will roll out the full fit out by starting with four tenants and increasing over time</li> </ul>	Low
2	Construction delay	<ul style="list-style-type: none"> <li>- Proven contractors engaged who have delivered on time and in budget previously.</li> <li>- Tight contractor milestones established</li> </ul>	Medium
	Tenant rentals don't cover opex	<ul style="list-style-type: none"> <li>- Operational expenses minimised</li> </ul>	Medium
	High tenant turnover	<ul style="list-style-type: none"> <li>- Tight tenant selection criteria established and minimum rental lease required with bond up front</li> </ul>	Medium

### Consultation undertaken or implications:

#### MBIE Science

- A number of regionally based proposals are being developed around the food and beverage sector and are seeking funding through the PDF. The review of the NZFIN is taking into consideration these proposals and how best to ensure aligned government support for the F&B industry.
- The current proposals are Food HQ and the Hawkes Bay Food Innovation Hub.
- The assessment of the Nelson Food Factory should ensure that it is not duplicating what is already available. It is not clear, if the Nelson Food Factory has looked at the facilities and equipment available in the region/ South Island. It is not obvious if they looking to provide something different or similar to what already exists e.g equipment?

- In principal, the Nelson Food Factory proposal appears to not be inconsistent with the future role and functions for NZFIN if they are willing to work within the future NZFIN structure and the longer term policy aims of supporting a co-ordinated and collaborative industry.

## MPI

There has been no MPI involvement in the shaping of this application.

The Nelson region is well known for its high value horticultural products as well as other products like cider, cheeses, olive oil and baked goods, but has limited facilities for start-up food companies to be able to work collaboratively in developing new food products.

Food manufacturing jobs have increased 6% over the last 5 years, and the sector contributes around 5% (\$<sup>Commercial</sup>) to the region's GDP.

The applicant (Picot Productions Ltd) established Pic's Peanut Butter in 2007. Pic's actively contributes to the growth of the regional economy by:

- employing more than <sup>Comm</sup> staff;
- supporting local events and organisations;
- offering internships and work experience for students; and
- providing mentoring to numerous start-up business owners

Whilst there are no other PGF applications for the region of this type, there are currently two other applications in the North Island for food pilot type operations (Food HQ and the Hawkes Bay Food Innovation Hub).

Elsewhere there are other existing food pilot operations through the New Zealand Food Innovation Network (NZFIN), notably Food South in Christchurch.

Some stakeholder support has been offered as part of the application, namely **Commercial Information**, but more would be needed to show greater buy-in and help build the case for longer term opportunities.

MPI believes this application should be considered in conjunction with the existing and proposed extension of the network.

The Food Factory will make a positive impact on the region's ability to create and scale high value food products in a collaborative environment.

It will offer a venue for start-ups and established food producers to look at innovation in the food system using a local resource base.

Beyond the Primary Industries the application will assist by:

- Building on and enhancing existing capability in Nelson.
- Supporting a number of government priorities: increased investment R&D; increased international connections; regional development; enhanced skills development; diversification in the food and beverage industry; growth through value creation

Whilst the application has merit there are a number of areas that would need further work if the application was supported.

Governance and connection

Market and utilisation

**Recommendation:**

MPI supports approval of the proposal. This proposal shows good additionality for the region; it will enhance food innovation capability and could also boost the status of the Nelson as an artisan food producer.

Several areas require further consideration – these are outlined in the body of the memo.

<b>Supporting proposal:</b>	Yes
<b>Appendices:</b>	Yes – Application and supporting letters are as annexes
<b>Author of paper:</b>	ELH, Investment Team

PROACTIVELY RELEASED