

2.4 HAWKE'S BAY FOOD INNOVATION HUB

PGF Application		For: Approval	
Applicant:	Hastings District Council ("HDC")	Pipedrive ID #	R05.01002
Entity Type:	Local Authority	PGF Funding Sought:	Up to \$12,000,000
Region	Hawkes Bay	Total Project Value:	Commercial Information
Tier:	2 - Sectors	Co-contribution rate:	Comm% - Comm%
Sector:	Food and Fibre	Funding Structure:	Grant

We recommend that the Independent Advisory Panel:

- a) **Note** that the PDU recommend that a grant of up to \$12m for the Hawke's Bay Food Innovation Hub be approved in principle for design and construction of the Hub subject to:
- Commitment from HDC to support \$^{Commercial} of the project expenditure and any cost overruns.
 - Confirmation from the HDC to continue to support the hub post-construction and fund any potential operating deficits.
 - Pre-construction confirmation of leases being in place for a reasonable percentage of the Hub's lettable area and validation that the project remains viable with the support of the HDC. This will also provide more clarity on the cost of any potential operating subsidy.
 - **Commercial Information**
 - The PDU receiving a copy of HDC's procurement process for the Hub and working with HDC to ensure that the process takes cognisance of broader procurement outcomes including local procurement and training.
- b) **Commercial Information**
- c) **Note** the business case produced by Sapere Research Group and based on the learnings of existing members of the Food Innovation Network, it is supportive of the establishment of a Hawke's Bay Food Innovation Hub.
- d) **Note** should the Hawke's Bay Food Innovation Hub perform in line with expectations it would directly employ ^{Commercial} FTEs. However, the work undertaken by the HUB is expected to lead to the establishment of new commercial entities which would create approximately ^{Commercial} FTEs and support the existing food and agricultural industry in the Hawke's Bay.
- e) **Free and frank opinions** and strong regional support for the project.
- f) **Note** that a paper is being produced by MBIE's Economic Development and Transitions – Sectors Policy Team for the Minister of Economic Development and this team has provided input into the business case prepared by ^{Commercial Info}.
- g) **Note** that PDU recommends providing a letter to HDC to assist with fundraising for the project and pre-marketing to potential tenants and other users of the facility.

Proposal and funding structure

The project involves the development and construction of a building to house the Hawke's Bay Food Innovation Hub (HBFIH), with the objectives of coordinating existing capabilities; facilitating the transfer of knowledge

between regional stakeholders and institutions; and building links with the wider food innovation system. This is intended to attract and incubate a number of growth businesses in the food, beverage, agritech and related industries with the region. This could in time lead to the location of relevant open access research and pilot plant equipment, in conjunction with other parties that is not available elsewhere in New Zealand.

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The project cost estimates are \$ [Commercial Information] with a [Commercial Inform] contribution of \$ [Commercial Informa] in conjunction with \$12 million sought from the PGF:

FUNDING ESTIMATES	
Capital & set up cost	\$ [Commercial Infir]
Operating deficit [Commercial Informa]	\$ [Commercial]
Land	\$ [Commercial]
Total	\$ [Commercial inf]

The overall cost was updated by HDC after the recommendations of the [Commercial Inform] business case. [Commercial Information]

[Redacted]. This structure reflects learning from experience and evolution of similar NZ Food Innovation Network (“NZFIN”) facilities in South Auckland, Waikato and in the South Island. In particular the [Commercial Information] anticipated for this project reflects this experience.

Background

In July and August 2017, HDC, Napier City Council, Hawke’s Bay Regional Council and the Tomoana Food Hub co-funded a \$ [Commercial Info] an initial study. This study examined whether the concept of an Innovation Park in Hawke’s Bay, supported by a new facility that forms part of the NZ Food Innovation Network, attracted interest from existing food and beverage and agritech businesses in the Bay.

The study concluded that there was genuine interest from food, beverage and agritech businesses in the concept of a food innovation hub. Consequently, the Steering Committee overseeing the Project wished to proceed with a detailed Feasibility Study to examine whether such a facility could succeed in Hawke’s Bay, and to develop a detailed business case on the preferred option. The PGF contributed \$200,000 to this detailed feasibility study, which produced the attached business case

The project steering group identified a step-wise development along the following lines:

Step One - Establish soft services and a physical presence

Establish a physical presence for the hub, in an innovation centre modelled on the existing Waikato Innovation Park, and support this with soft services assisting with Māori economic development and with commercialisation services. The hub would be designed to promote more cost-effective food and beverage product innovation, and to provide a base for clustering these firms to improve cooperation and bring in scientific and technical expertise. In time, it is also expected to act as a hub for integrating research activity around waste product, and co-ordination of effort on sustainable packaging.

Step Two - Build a generic, food-safe manufacturing facility

The second clustering is much more likely to be a supplier push of new technology, possibly supported by a generic, plant & food manufacturing facility. **Commercial Information**

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. Supporting this would accelerate the possibility of stage two occurring, which would involve a greater investment in plant and machinery and drive further innovation in regions horticultural sector.

New Zealand Food Innovation Network

NZFIN is a national network of food processing pilot plants. It was established as a result of recommendations in the 2006 report of the Food and Beverage Taskforce, which was set up by Government to accelerate growth and innovation in New Zealand's food and beverage sector.

NZFIN has four hubs, located in Lincoln (FoodSouth), Palmerston North (FoodPilot), the Waikato (FoodWaikato) and Auckland (The FoodBowl). The NZFIN hubs provide firms with the facilities, equipment and knowledge they need to take new added value products and processes from conception to commercial success. NZFIN hubs are typically funded through combinations of local ownership and support in partnerships between Government and councils (apart from FoodPilot, which is wholly owned and funded by Massey University). FoodWaikato is self-sustaining through revenues from clients as it is a single use facility, focused on high value nutritional powders such as sheep and goat infant formula. The FoodBowl and FoodSouth are multi-purpose facilities, and the FoodBowl in particular provides a wide range of plant and equipment. These facilities require Government or local body funding in addition to client revenues to remain operational.

Assessment against the PGF criteria:**Eligibility Criteria**

This application is eligible for PGF funding. The main alignment to PGF criteria this project relates to, is that it would lead to permanent jobs, builds strongly on the existing primary sector production and processing capacity in the region leading to the creation of new food businesses, and enhanced sustainability of natural assets by moving businesses higher up the production value chain.

Productivity Potential

Should the HBFIH perform as expected, it would deliver a wide range of value enhancing initiatives that should lead to improved productivity potential for many of the food and agricultural industries in the Hawke's Bay.

Primary sector production and processing contributed \$1.8 billion to the Hawke's Bay economy in 2017, with this fertile area being a significant producer of much of New Zealand's fruit and vegetables. This specialisation in primary production has been sustained over a number of years and this investment, via encouraging new products and access to new markets (including export markets), should create permanent (i.e. non-seasonal), well-paid jobs.

The stakeholders and HBFIH's market research identified a number of important trends and opportunities:

- Environmentally sustainable production and packaging (including low impact on atmospheric emissions and water availability and quality, and less plastic) – Environmental issues are in the news and in customers' consciousness. Technology has provided an affordable means for presenting traceable production

information at and before the point of purchase.

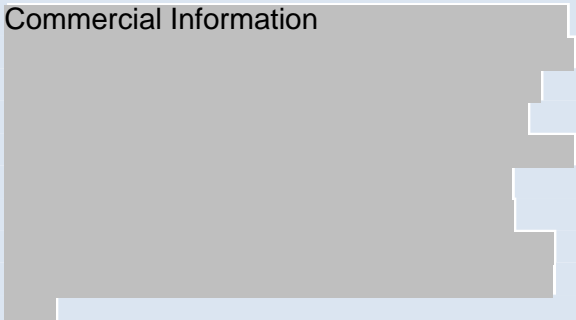
- Plant-based production – a shift from high meat to more plant-based diets could reduce global health burdens while cutting global emissions and easing pressure on natural resources.
- Functional food and beverages – awareness of the links between diet and health is greater than ever, and as a result consumers are craving food and beverages that can enhance lifestyles and provide health benefits.
- Waste stream utilisation – food waste is a global problem that undermines industry profitability, contributes to climate change and when considered in conjunction with food poverty, is a potent symbol of the inequalities and inefficiencies found in contemporary food systems.

The HBFIH intends to respond to these opportunities, while building on Hawke's Bay's very clear competitive advantage in growing.

Policy objectives and regional priorities

The Minister for Economic Development requested MBIE to undertake a review of food hubs and industrial parks to assist with identifying the most beneficial locations for investment in food hubs and the NZ Food Innovation Network. MBIE's Sector's Policy Team is currently leading a policy review of NZFIN. Supported by Innovation Policy, this review will inform MBIE advice to Ministers of the future of NZFIN, including its core purpose, governance, operations and funding. Indicative timing indicates that initial views will be provided to the Ministers of Economic Development and Research, Science and Innovation in June.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
Link with fund and government outcomes		
Creates permanent jobs	<ul style="list-style-type: none"> • Although the hub itself would not directly employ significant numbers (Commercial Inf FTEs), the work undertaken by the HBFIH is expected to lead to the establishment of new commercial entities which would create approximately Co er FTEs. 	✓✓✓
Delivers benefit to the community	<ul style="list-style-type: none"> • The purpose of the HBFIH is to provide a facility that facilitates collaboration, innovation and more effective sharing of resources and facilities within the Hawke's Bay region, from across the greater New Zealand Food Innovation Network. This is expected to lead to significant growth in the Hawke's Bay (average expected increase of over \$100m GDP) and benefit fruit, vegetable and other food producers in the region. 	✓✓✓✓
Increased utilisation and returns of Maori asset base	<ul style="list-style-type: none"> • Not directly, although there could be some benefit from the work undertaken by the hub benefitting land owners over the medium term. 	
Enhanced sustainability of natural assets	<ul style="list-style-type: none"> • The hub is expected to lead to better use of natural assets by enhancing products and returns. 	✓✓✓
Mitigation of climate change effects	<ul style="list-style-type: none"> • By making better use of raw materials and researching new processes, there may be some 	✓✓✓

	reduction in climate change as a result of the work undertaken by the HBFIH.	
Additionality		
Adding value by building on what is already there	<ul style="list-style-type: none"> It intends to build on the strong agricultural and food focus within the Hawke’s Bay Region. 	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> The HBFIH is expected to deliver a wide range of value enhancing initiatives that should lead improve productivity potential for many of the food and agricultural industries in the Hawke’s Bay. 	✓✓✓
Connected to regional stakeholders and frameworks		
Alignment with regional priorities	<ul style="list-style-type: none"> The project is aligned to the food and agricultural focus of ‘Matariki’, the Hawke’s Bay Growth plan. 	✓✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> The HBFIH has strong local support and the applicant is the local council. 	✓✓✓✓
Governance, risk management and project execution		
Robust project management and governance systems	<ul style="list-style-type: none"> The project management of the HBFIH is expected to be adequate and the governance structure within the HDC (which will drive the project) is considered to be adequate. 	✓✓✓
Risk management approach	<ul style="list-style-type: none"> The risk management frame work is considered adequate, although the PDU would expect to have input into this as the project develops. 	✓✓✓
Future ownership / operational management	<ul style="list-style-type: none"> Commercial Information 	✓✓✓

Analysis of the benefits

Based on a recent business case from the **Commercial Information**, the average additional impact of the HBFIH would be approximately a \$^{Commercial In} increase to the Hawke’s Bay region’s GDP over the next 10 years. The following table summarises the GDP and employment effects from each benefit category. The study estimated that the funding gap over 10 years for the project was \$^{Commercial}. For the Hawke’s Bay (i.e. including relocated activity) even the benefits in the 25th percentile case outweigh this cost. From a New Zealand perspective (i.e. excluding relocated activity), in ^{Comin} percent of cases the benefits will outweigh the cost. The mean GDP impact is about \$^{Commercial In}, which is about ^{Commer} percent of Hawke’s Bay’s current GDP. The mean employment impact is ^{C mmerc} jobs or ^{Comme}

percent of total jobs in the Hawke’s Bay.

Summary of GDP impacts (\$ million)

Percentile	NPV of GDP, Direct impact (10 years)	Agglomeration (10 years)	Construction	Total
25th Percentile	Commercial Information	Commercial Information	Commercial Information	Commercial Information
Median	Commercial Information	Commercial Information	Commercial Information	Commercial Information
Mean	Commercial Information	Commercial Information	Commercial Information	Commercial Information
75th Percentile	Commercial Information	Commercial Information	Commercial Information	Commercial Information

Summary of employment effects (direct, indirect and induced)

Percentile	Additional activity to Hawke’s Bay (10 years)	Agglomeration (10 years)	Construction	Total
25th Percentile	Commercial Information	Commercial Information	Commercial Information	Commercial Information
Median	Commercial Information	Commercial Information	Commercial Information	Commercial Information
Mean	Commercial Information	Commercial Information	Commercial Information	Commercial Information
75th Percentile	Commercial Information	Commercial Information	Commercial Information	Commercial Information

Financial Analysis

Free and frank opinions [redacted], with cash balances of approximately \$ [redacted] and debt of \$ [redacted] at the end of June 2018. In addition the CFO indicated that “Council is part way through a \$ [redacted] earthquake strengthening program for its Opera House and Municipal Building (of which Council is Funding \$ [redacted]), and is in to year 2 of a 4 year safe drinking water program costing \$ [redacted] following the campylobacter outbreak in Havelock North during August 2016. This has meant our Rate Increases have been set at [redacted] % for the next couple of years to fund these activities, Free and frank opinions [redacted]”

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Funding Arrangements

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Due Diligence and Ownership

As HDC is a local authority, ongoing due diligence is undertaken by DIA.

Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Project Risk	Risk that the project does not perform to expectation.	<ul style="list-style-type: none"> Commercial Information 	Medium
No HDC commitment to support	HDC decides to not commit to supporting the project or withdraw support after the design/costing stage.	<ul style="list-style-type: none"> The PDU proposes that the pre-construction costs be funded by HDC. As a result, any withdrawal pre-construction would not risk and PGF funding. 	Low
HDC withdraws support after construction	The risk that post construction, HDC chooses to no longer support, or does not have the financial resources to support the project.	<ul style="list-style-type: none"> Commercial Information 	Medium

Consultation undertaken or implications: MBIE (Economic Development and Transitions – Sectors Policy Team), MPI

MBIE stated that: “In principal the proposal and aim to take a staged approach to developing a food and beverage Innovation Park in Hawke’s Bay is not inconsistent with initial views of officials around the future role and functions of the New Zealand Food Innovation Network or longer term policy aims of supporting a co-ordinated and collaborative industry. However, moving forward it is important to allow for the ability to place requirements on appropriate food and beverage Government funded initiatives, including through the PDU. This will ensure partnerships and networks can be developed across the country to support food and beverage value-added product development, prevent unnecessary duplication of services and infrastructure, support diversity of product development and ensure appropriate levels of open access to support and equipment across the country. We consider this could be done through placing appropriate conditions on funding arrangements through the PDU. Provided the currently funding application does not limit or restrict the ability to impose reasonable requirements around the Innovation park being part of developing and supporting co-ordinated and collaborate

approaches to food and beverage development and working with the NZFIN to do so, we do not consider it is inconsistent with the initial views of the policy aims of supporting a co-ordinated and collaborative industry.”

MPI feedback will be provided to the IAP at the meeting.

Supporting proposal:	Yes
Appendices:	Yes – Applications and supporting letters are as annexes
Author of paper:	AM, JH, PDU Investment Team

PROACTIVELY RELEASED