

Hawke's Bay Food Innovation Hub

Project overview

Name of the project	Hawke's Bay Food Innovation Hub
Region	Hawke's Bay
Tier and type	Tier 2: Sectors – Food and Fibre
Applicant	Hastings District Council
Total project value	\$ <small>Commercial Information</small>
Amount of funding sought from the PGF	\$12 million
Financial instrument	Grant, <small>Commercial Information</small>
PDU recommendation	Approve

99. Hastings District Council (HDC) is seeking funding of \$12 million from the PGF for the design and construction of a food innovation hub.
100. The project involves the development and construction of a building to house the Hawke's Bay Food Innovation Hub (the Hub), 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.

Alignment with the New Zealand Food Innovation Network and the Hub

101. The Hub would be a member of the New Zealand Food Innovation Network. At RED Minister's request, the PDU has worked with MBIE to ensure the New Zealand Food Innovation Network (NZFIN) review being undertaken by MBIE will not result in policy conflicting with PGF investment in the Hub. MBIE have confirmed their support for this Hub and noted that it is consistent with the future needs of the food and beverage ecosystem. The Hub is an independent entity, and NZFIN will aim to maximise the positive benefits of the Hub by developing a nationwide system of food innovation which the Hub will be a component of.

Previous studies

Commercial Information

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 business case by the Sapere Research Group.

104. Based on the recent business case, the stated average additional impact of the food hub would be approximately a \$^{Commercial Information} increase to the Hawke's Bay region's GDP over the next ^{Comm} years.
105. The project steering group identified a step-wise development along the following lines:

Step One - Establish soft services and a physical presence

- a. 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.

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107. At Minister Parker's request, MBIE is currently putting together a paper that makes recommendations in relation to New Zealand's food innovation system as a whole. ^{Commercial Information}

MBIE has assured the PDU that this work will not impact on the viability of the Hub, as it stands on its own outside of the New Zealand Food Innovation Network, but the Hub's positive impacts will be amplified by the network.

108. Funding will be made conditional on the Hub being established in a way that aligns with the outcome of this review. PDU officials will work with MBIE to identify these set conditions after the review is complete. In August 2019 an initial outline of thinking is due to be presented to the Minister of Economic Development.

PDU recommendation

109. The PDU recommends that you approve a \$12 million as a conditional grant/suspensory loan or comparable instrument from the PGF for the design and construction of a food innovation hub, subject to:
- a. Commitment from Hastings District Council (HDC) to support \$^{Commercial Information} of the project expenditure and any cost overruns.

- b. Commitment that HDC will assume the pre-construction risk with PGF funding being used for construction where the relevant conditions are met.
- c. Commitment to the food innovation hub having a clear focus on innovation in horticulture and agritech.
- d. Confirmation from the HDC to continue to support the hub post-construction and fund any potential operating deficits.
- e. Commercial Information [REDACTED] 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.
- f. Commercial Information [REDACTED]
- g. The Provincial Development Unit 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.
- h. Evidence of private sector backing.
- i. Between [REDACTED] to [REDACTED] per cent co-contribution by HDC, with an expectation that a co-contribution will be sought from other industry players.
- j. Free and frank opinions [REDACTED]
- k. Development of a programme plan detailing how the Hawkes Bay Food Innovation Hub and other Food Hubs will work together
- l. Noting MBIE's support for the project and confirmation the project is consistent with the NZFIN work it is undertaking, funding being conditional upon the outcome of MBIE's paper. This relates to any future proposal for NZFIN and the future needs of the food and beverage ecosystem, not being in conflict with this proposal, noting further conditions may come out of this process. In August 2019 an initial outline of thinking is due to be presented to the Minister of Economic Development.

110. HDC applied for \$12 million based on its own assessment of the cost of the proposed innovation hub, while taking into account the Sapere business case.

111. The proposed co-contribution rate was reached after several discussions with HDC. The initial HDC co-contribution was minimal and is at its current level following discussions with officials and approval by HDC.

Local support

112. The hub project has strong support from across the region, and has letters of support from Business Hawke's Bay, Central Hawke's Bay District Council, Eastern Institute of Technology, the New Zealand Food Innovation Network and Napier City Council, and Wairarapa District Council, among others.

Governance

113. Project management and the governance structure within the HDC (who will drive the project) are considered to be adequate.

114. The required ongoing commitment from council will ensure they remain focussed on the Hub. However the possibility that if it does not perform well, the ongoing subsidies required may result in it being challenging for the Hub to continue operating with its stated purpose. Commercial Information



Benefits

115. Should the Hub perform in line with expectations it would directly employ Commercial Information FTEs. However, the work undertaken by the Hub is expected to lead to the establishment of new commercial entities which would create approximately Commercial Information FTEs and support the existing food and agricultural industry in the Hawke's Bay.

116. Based on the recent business case from the Sapere Research Group, the average additional impact of the food hub would be approximately a \$ Commercial Information increase to the Hawke's Bay region's GDP over the next Commercial Information years. The study estimated that the funding gap over Commercial Information years for the project was \$ Commercial Information. 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 Commercial Information percent of cases the benefits will outweigh the cost. The mean GDP impact is about \$ Commercial Information which is about Commercial Information percent of Hawke's Bay's current GDP. The mean employment impact is Commercial Information jobs or Commercial Information percent of total jobs in the Hawke's Bay.

117. The following table summarises the GDP and employment effects from each benefit category that have been detailed.

Summary of GDP impacts (\$ million)

Percentile	NPV of GDP, Direct impact (Commercial Information years)	Agglomeration (Commercial Information 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 (Commercial Information years)	Agglomeration (Commercial Information 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

Percentile	Additional activity to Hawke's Bay (years)	Agglomeration (years)	Construction	Total
75th Percentile	Commercial Inf	Commercial Inf	Comm	Commercial Inf

118. Should the Hub 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.
119. 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), with the expectation it could create permanent (i.e. non-seasonal), well-paid jobs.
120. The stakeholders and the Hub'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 Hub intends to respond to these opportunities, while building on Hawke's Bay's very clear competitive advantage in growing.

International obligations

121. Commercial Information [REDACTED]
122. Similar projects to this under the New Zealand Food Innovation Network have previously been assessed as being compliant with New Zealand's international obligations.
123. The World Trade Organisation's (WTO) Agreement on Agriculture disciplines would also apply. The expenditure can be categorised as Green Box, given its focus on R&D.

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Costs and funding sources

125. The proposed structure of this transaction requires **Commercial Information**

126. The hub is likely to require an ongoing **Commercial Information** for up to **Commercial Information** years. This will be covered by HDC's contribution.

127. The project cost estimates are \$ **Commercial Information**, with a regional contribution of at least \$ **Commercial Information** in conjunction with \$12 million sought from the PGF:

FUNDING ESTIMATES	
Capital & set up cost	\$ Commercial Information
Operating deficit 15 years	\$ Commercial Information
Land	\$ Commercial Information
Total	\$ Commercial Information

128. The full value of the operating deficit is difficult to calculate before actual tenant numbers have been confirmed and projected into the future. As a result the full value may be lower than \$ **Commercial Information**.

PDU assessment of the project

129. This section provides an overview of PDU's assessment against the PGF eligibility and assessment criteria.

Assessment against PGF criteria

Criteria	Rating (1✓ to 5✓)	Comment
Sustainable regional economic development	✓✓✓✓	The purpose of the food hub 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

Criteria	Rating (1✓ to 5✓)	Comment
		expected increase of over \$ ^{Commercial Info} (GDP) and benefit fruit, vegetable and other food producers in the region.
Productivity and innovation	✓✓✓	The hub is expected to 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.
Increased employment, training or work readiness for the sectors workforce	✓✓✓	Although the hub itself would not directly employ significant numbers (Commercial Info FTEs), the work undertaken by the Hub is expected to lead to the establishment of new commercial entities which have the Sapere report notes ^{Commercial} could create approximately ^{Commercial} FTEs.
NZ's ability to meet climate change commitments	✓✓✓	The hub will make better use of raw materials and will research new processes that could lead to a reduction in climate change.
Māori aspirations for utilising land and other resources and achieving cultural objectives	-	Not directly, although there could be some benefit from the work undertaken by the hub benefitting land owners over the medium term.
Additionality	✓✓✓	It intends to build on the strong agricultural and food focus within the Hawke's Bay.
Connections and alignment with regional priorities	✓✓✓✓	The project is aligned to the food and agricultural focus of 'Matariki', the Hawke's Bay Growth plan.
Environmental sustainability and/or productivity of natural assets	✓✓✓	The hub is expected to lead to better use of natural assets by enhancing products and returns.

Agency comments

MBIE Economic Development and Transitions – Sectors Policy Team

130. The MBIE Economic Development and Transitions – Sectors Policy Team supports the Hawke's Bay Food Innovation Hub in its current form as proposed here and relevant conditions will be placed on any agreed funding to ensure the Hub works with and supports the broader food and beverage network through the outcome of the review of NZFIN.
131. The MBIE Economic Development and Transitions – Sectors Policy Team advise 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.

132. Free and frank opinions

133.

MPI

134. MPI recommend the following conditions to funding:

- a. Submission of governance arrangements and detailed project plan prior to draw down of any PGF funding;
- b. More detail on the FTEs to be employed directly at the Hub covering scope of roles, labour supply and sustainability;
- c. Development of a programme plan detailing how Food HQ and the Hawkes Bay Food Innovation Hub will work together;
- d. Breakdown of how the \$12 million will be allocated pre-construction.

TPK

135. TPK are generally supportive of the application the initiative has the potential to have a positive impact on Māori land use as well as the food sector where many Māori are employed. TPK advises that the applicants formally involve iwi as part of the project control group and note that **Commercial Information** owner in the land that will be used to locate the hub.

Risk assessment

136. As HDC is a local authority, ongoing due diligence is undertaken by the Department of Internal Affairs.

137. The following risks have been identified:

Risk description	Mitigations	Risk Rating L/M/H
Project risk: Risk that the project does not perform to expectation.	Commercial Information [Redacted]	M
No HDC commitment to support: HDC decides not to commit to supporting the project or withdraw support after the design/costing stage.	Commercial Information [Redacted]	L
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.	Commercial Information [Redacted]	M

Recommendations and next steps

138. The PDU recommends that you approve a \$12 million as a suspensory loan/ conditional grant or comparable instrument from the PGF for the design and construction of a food innovation hub, subject to:

- a. Commitment from Hastings District Council (HDC) to support \$ [Redacted] of the project expenditure and any cost overruns.
- b. Commitment that HDC will assume the pre-construction risk with PGF funding being used for construction where the relevant conditions are met.
- c. Commitment to the food innovation hub having a clear focus on innovation in horticulture and agritech.
- d. Confirmation from the HDC to continue to support the hub post-construction and fund any potential operating deficits.
- e. Commercial Information [Redacted]
- f. Commercial Information [Redacted]
- g. The Provincial Development Unit 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.
- h. Evidence of private sector backing.

- i. Between ^{Comme} [redacted] to ^{Comme} [redacted] per cent co-contribution by HDC, with an expectation that a co-contribution will be sought from other industry players.
- j. Free and frank opinions [redacted]
- k. Development of a programme plan detailing how the Hawkes Bay Food Innovation Hub and other Food Hubs will work together
- l. Noting MBIE's support for the project and confirmation the project is consistent with the NZFIN work it is undertaking, funding being conditional upon the outcome of MBIE's paper. This relates to any future proposal for NZFIN and the future needs of the food and beverage ecosystem, not being in conflict with this proposal, noting further conditions may come out of this process. In August 2019 an initial outline of thinking is due to be presented to the Minister of Economic Development.

PROACTIVELY RELEASED