



**Summary Report:
Pre feasibility Study
Manjimup Food and Beverage hub**

Department of Agriculture and Food WA
15 September 2016

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Executive summary (1 of 2)

Context and study objectives

- ▶ DAFWA engaged EY to undertake a pre feasibility study for the concept of a food and beverage hub in Manjimup (the hub).
- ▶ The objectives of the study were to:
 - ▶ Ascertain the level of interest of producers in the Manjimup region in the concept of a food and beverage hub.
 - ▶ Identify the types of facilities and services that would be of most value to producers in the Manjimup area.
 - ▶ Identify potential sites for a food and beverage hub and determine the most preferred site.
 - ▶ Determine the financial viability of a food and beverage hub in an environment where there may be willingness within government to provide for upfront capital costs but relatively little willingness to provide ongoing financial support for the operation of a hub.

Study method

- ▶ The study method involved four steps:
 1. Desktop and case study analysis: this involved understanding how producers in the region could benefit from existing and emerging opportunities in global markets. Case study examples of food hubs were then drawn up to identify key learnings and inform how a proposed hub might work.
 2. Stakeholder consultation: this involved targeted stakeholder consultation with the region's producers and government and industry representatives. This informed key elements of what a hub might contain and the general sounding out of whether the introduction of a food and beverage hub would be utilised by producers.

3. Site investigation: this involved assessing stakeholder views to develop a shortlist of potential sites for a hub. Visual inspection of potential sites and surrounding locally was then undertaken.
4. SWOT analysis and costings: this involved developing indicative costings and SWOT analysis to assess the relative merits of identified sites.

Findings

- ▶ A food and beverage hub that offered skills and facilities to better enable local producers to identify and take advantage of global opportunities might help overcome some of the existing barriers faced by producers in the region.
- ▶ Comparative analysis found few examples of existing peer food and beverage hubs that operate as financially independent entities, capable of covering the costs of operation. Hubs created by governments typically require ongoing levels of government support.
- ▶ Stakeholders expressed interest in the concept of a food and beverage hub in Manjimup. Their input helped identify three potential sites for a food and beverage hub, with the existing site of the DAFWA Manjimup research facility, determined as the preferred option.
- ▶ However, the willingness and capacity of local producers to contribute financially to a hub is limited and it is unlikely that a food and beverage hub in Manjimup could be financially sustainable without ongoing support from government.

Executive summary (2 of 2)

Next steps

- ▶ If there remains a strong desire in government to assist producers in the Manjimup region to take advantage of global opportunities that are emerging from changing economic and demographic conditions in Asia (and elsewhere), then other options to consider might include:

- ▶ *The facilitation of existing agriculture and research experts (such as ex-DAFWA employees) to enable a transition from government-sponsored employment to a private sector consultant type employment:*

Stakeholders have suggested that many ex-DAFWA employees have useful research and analytical skills but that many of these people may have difficulty in transitioning to a private sector type of role. The provision of training in business skills such as marketing and business planning may help bring this expertise to the market without the incursion of capital costs that would be associated with the development of a hub facility.

- ▶ *The development of linkages with existing agriculture consultants:*

There is an emergence of private sector activity in the types of research and advisory services that might normally have been undertaken by government. Austrade's Industry Capability report lists over 100 companies that provide research and business services to the agriculture sector. There may be opportunities for DAFWA to work with these types of companies with the objective of assisting producers to access the services that are on offer. Again, this approach could represent a cheaper and better targeted alternative the development of a food and beverage hub.

- ▶ *Collaboration with Advance Packing & Marketing Services Pty Ltd (APMS) to maximise opportunities for local producers to use the services and expertise that already exists offer:*

In many ways, the APMS site operates as a private hub facility similar to that which has been envisioned by DAFWA and stakeholder consulted with during this study. Some local growers already use the APMS facilities under commercial arrangements to trial new processing and packaging opportunities. Local growers may not always be able to access these services, particularly when a commercial agreement cannot be met. There may be a role for government to operate as an intermediary with the objective of enhancing the extent to which local growers can access the opportunities available through the existing APMS site.

Context and study objectives

Context

- ▶ DAFWA is committed to growing Western Australia's agriculture and food industries through the promotion of excellence and innovation in business practices. A key DAFWA role is to support economic development across a wide range of agribusiness sectors in Western Australia.
- ▶ As part of the development of the agriculture and food sector in the Manjimup region, there has been interest in the economic opportunities that may arise through the development of some form of food and beverage hub in Manjimup. It is envisaged that some form of hub might assist the region's producers to take advantage of the opportunities that are emerging in particular from Asian markets for Western Australian produce.
- ▶ The primary objective of the establishment of a food and beverage hub would be to assist the region's food producers to grow and develop by providing services and facilities to encourage innovation that they would otherwise not have access to. These include: commercial kitchens; laboratories; processing and packaging equipment; food technologist expertise among many other potential offerings.
- ▶ Underlying this objective is a view that there may be opportunities for the region's producers to 'step' up the value chain by moving from being producers of raw or relatively unprocessed product to higher value (possibly even premium) processed and packaged product. The benefits to local producers from such a step would be the returns that flow from the sale of higher margin product into Asian and other markets.

Study objectives

- ▶ Specific objectives of this study are as follows:
 - ▶ Use targeted stakeholder consultation to determine the level of interest in a hub among producers located in the Manjimup region.
 - ▶ To identify the types of facilities and services that would be of most value to the region's producers.
 - ▶ Determine the willingness and ability of producers to pay for the types of services and facilities identified as being useful to growing their business.
 - ▶ Identify potential sites for a hub and evaluate the relative merits and commercial feasibility of a hub located at these sites.
 - ▶ Determine the financial viability of a hub in the context of an environment where government may be able to contribute in some form to start-up and capital costs but is not a long-term provider of cashflow to sustain the operations of a hub.

Study method

Overview

- ▶ The study method involved four steps:
 1. Desktop and case study analysis
 2. Stakeholder consultation
 3. Site investigation
 4. SWOT analysis and costings
- ▶ As a basic precursor to the pre-feasibility study, Step 1 involved a desktop review of the existing agricultural production in the Manjimup region to identify how producers in the region stand to benefit from existing and emerging opportunities in global markets. Following this, national and international examples of food hubs were drawn up to inform understanding of financial viability and potential operating models that could be adopted.
- ▶ DAFWA requested a method that was underpinned by targeted stakeholder consultation with the region's producers and government and industry representatives. Consequently, Step 2 involved broad stakeholder consultation which informed key elements of what a hub might contain and the general sounding out of whether the introduction of a food and beverage hub would be utilised by producers.
- ▶ Stakeholder consultation then informed Step 3, the development of a shortlist of potential sites. This was followed by investigation and visual inspection of potential sites for a hub.
- ▶ Finally, for each of these sites, EY developed indicative costings for establishing a hub and undertook a SWOT analysis to assess the relative merits of the three identified sites. This included the ability of a hub to be self-sustaining (rather than reliant on ongoing financial support from government).

1

Desktop and case study analysis

- ▶ Review of global demand conditions in the agriculture and food sector to inform a profile of how producers in the Manjimup region stand to benefit from opportunities
- ▶ Review of case study examples of food hubs to inform understanding of their financial viability and possible governance and operating models that could be adopted

2

Stakeholder consultation

- ▶ Report findings on type of involvement and the demonstrated level of commitment
- ▶ Refinement of proposed services and facilities to be potentially accommodated at the hub

3

Site investigation

- ▶ Identification of three potential sites for the hub based on DAWFA and stakeholder preferences
- ▶ Visual inspection of potential sites and surrounding locality

4

SWOT analysis and costings

- ▶ SWOT analysis and high-level costings
- ▶ Outline of the key commercial considerations, and broader economic / social outcomes

Analysis incorporated into findings, recommendations and next steps

Step 1: Desktop and case study analysis

Overview

- ▶ As a basic precursor to the pre-feasibility study, desktop analysis was undertaken to review global demand conditions in the agriculture and food sector. This helped identify how producers in the Manjimup region could benefit from opportunities created by increasing wealth, growing populations and changing demand profiles, primarily in nearby Asian nations.
- ▶ A series of national and international case studies of existing food and beverage hubs were then developed and analysed to inform understanding of their financial viability and the possible governance and operating models that could be adopted in Western Australia.

Findings

- ▶ The Manjimup region accommodates a large number of relatively small and diverse food producers, including fruits, vegetables and meat products. Of note, within the Manjimup region, there is:
 - ▶ The largest orchard in Western Australia
 - ▶ The capacity to produce almost half of the State's potatoes
 - ▶ The largest truffle growing region outside of Europe, with a production value that accounts for between 70 and 80 per cent of Australia's total truffle output
 - ▶ Much diversity in production including apples, peaches, apricots, pears, plums, cherries, avocados, chestnuts and truffles
 - ▶ In aggregate, the largest food bowl in Western Australia (larger than the Carnarvon horticultural precinct and the Ord River horticultural precinct) ¹

- ▶ A 2014 report on the region estimated that strong demand prospects if coupled with favourable growing conditions could result in a 25 per cent increase in the value of the region's agricultural production between 2010-11 and 2017-18. Products for which growth prospects were considered favourable include: apples, avocados, potatoes, truffles, and jujubes.²
- ▶ Producers in the Manjimup region are in a relatively good position to be able to benefit from changing demand patterns, especially in Asian markets.
- ▶ A food and beverage hub of some description, particularly one that addresses market structure and skills or technology barriers, could be useful in assisting the region's producers transition and position themselves towards new opportunities, which are expected in higher value, branded and premium produce.
- ▶ Such a facility might present an opportunity for the region's producers to expand or improve the profitability of their business operations and might help overcome some of the existing barriers faced by producers.
- ▶ Case study analysis found few examples of hubs that operated as financially independent entities, capable of covering the costs of operation. Hubs created by governments typically require ongoing levels of government support. Hubs that are created by private sector proponents do exist and can operate independently of government but typically require a very large and well-resourced founding entity. Such an entity would likely seek to privately hold the majority of any intellectual property developed at a hub facility in return for its financial contributions.
- ▶ Please see Appendix A for a summary of the case studies analysed including key learnings and commonly used governance structures of food and beverage hubs.

1. South West Development Commission 2012, Manjimup Super Town, Townsite Growth Plan, Australia

2. Ian Longson and Dennis Phillips 2014, The Value of Horticultural Production in the Manjimup-Pemberton Area, Vegetables WA, Australia.

Step 2: Stakeholder consultation

Overview

- ▶ Stakeholders were interviewed to obtain perspectives on the level of interest and financial willingness to contribute to a food and beverage hub in Manjimup.
- ▶ Specifically, EY consulted with key private and public sector stakeholders to:
 - ▶ Assess the level of interest in the hub and to gather views on the types of services and facilities that would be most valued
 - ▶ Gauge the willingness to pay to access services and/or facilities, and/or contribute to capital and/or ongoing running costs of the hub
 - ▶ Gather views on possible sites for the hub and the roles for government and industry in funding of the hub
- ▶ DAFWA provided guidance on the stakeholders to be consulted. Stakeholders represented a broad cross-section of agriculture and food sector participants.

Findings

- ▶ A total of 20 interviews were undertaken with stakeholders representing a broad cross section of agriculture and food sectors, including; beef and truffle producers, as well as orchard and vegetable growers. Interviews were also held with representatives from government, not-for-profit and the tertiary education sector.
- ▶ Stakeholders identified a number of hub services and facilities which they would potentially use. These included: commercial kitchens, laboratories, food specialists/technicians, marketing and business development services facilities.
- ▶ A number of alternatives to the above services and facilities were proposed by stakeholders. These included the following; providing

agri-business consulting services to improve financial management and maturity of sector participants, the development of a statistical production database of the region and the provision of funding for the Southern Forests Food Council (SFFC) for use in the region.

- ▶ Interest in the proposed hub from the stakeholders, particularly those representing the State, not-for-profit, education and smaller private sector entities was reasonably high. Many believed the proposed food and beverage hub would not only benefit the agricultural sector, but Manjimup's wider economy.
- ▶ Stakeholders representing larger entities had lower levels of interest in the concept of a food and beverage hub. Many felt efforts could best be directed in other areas such as the provision of basic infrastructure (e.g. a gas pipeline), removal of bureaucratic red-tape, and greater advocacy of exporter market development.
- ▶ Across the board, the level of financial interest to contribute to a hub was relatively limited. Stakeholders representing smaller entities believed they would have a limited capacity to finance their use of the facility. Those stakeholders representing larger entities, though having a greater capacity to use the proposed facility and associated services, believed their money was better spent on other value-adding areas of their respective businesses.

Step 3: Site investigation

Overview

- ▶ The key requirements of a food and beverage hub within Manjimup were identified from stakeholder consultations and case study research. It was determined that to be most effective, a hub would need to offer some, if not all, of the following facilities and services:
 - ▶ Office space
 - ▶ Research and testing laboratories
 - ▶ Commercial kitchen facilities
 - ▶ Production area (sorting, grading, packaging and labelling)
 - ▶ Specialist advice services, including nutritionists, research scientists (including packaging), soil experts, food technologists, marketing and branding experts
 - ▶ Access to land to grow and test produce.

Findings

- ▶ During stakeholder consultations, three preferred locations for the proposed food and beverage hub, were put forward:
 - ▶ DAFWA's Manjimup Research Facility
 - ▶ Bendotti Exporters
 - ▶ Advanced Packaging & Marketing Services (APMS).
- ▶ EY conducted visual inspections of all three sites and recorded the key services and facility attributes of each.
- ▶ The DAFWA Manjimup Research Facility provides a total combined landholding of 105 hectares and comprises various detached developments, incorporating administration, research, laboratory, ablutions and poison storage components. The administration

building provides various office components and a small presentation/conference room. The research component comprises partitioned offices, with the two laboratory buildings providing for five individual laboratories. The administration, research and laboratories are not currently utilised to their full capacity. Additional features of the DAFWA facility include a fertiliser/storage shed and two residences are available for site visitors and staff accommodation. The land is primarily used for horticultural purposes with commercial agreements in place with industry to harvest a variety of crops and analyse the associated data produced.

- ▶ The Bendotti Exporters facility provides a combined land area of 29 hectares with the site used primarily as a processing and storage facility for potatoes supplied from farms within the Pemberton area. The facility provides the required accommodation and equipment for grading, processing, storing and exporting the final product. The utilisation of the facility varies between seasons, however can run at full capacity for as long as six months of the year. Facilities are purpose built for the operations of the current business and hence would need modification.
- ▶ The APMS facility provides a total land area of 12.7 hectares and is primarily utilised as a packing facility, specialising in avocados, with additional uses for processing other foods. The facility provides services to local farmers involved in a variety of horticultural sectors without the capability to package and/or process their produce. The improvements present to a modern standard and comprise a large processing development where produce is graded, packed and stored. Additional improvements comprise a smaller purpose built processing shed with various components allowing for cool room storage, freezing, processing and packaging. Plans are in place to upgrade the processing facilities over the next two years.

Step 4: SWOT analysis and costings

Overview

- ▶ A “Strengths, Weaknesses, Opportunities and Threats” (‘SWOT’) analysis provides a clearer picture as to the positive and negative attributes of each of the three sites. In developing the SWOT, consideration was given to:
 - ▶ Ability to meet DAFWA’s requirements
 - ▶ Ability to meet stakeholder requirements
 - ▶ Ease of access and proximity to markets, users, and labour
 - ▶ Potential site constraints/flexibility
- ▶ In terms of costings, indicative capital cost estimates were drawn up for the features of a hub that were identified as being important. Costs per square metre were used to derive estimates of a total cost range based on the construction of a relatively small or relatively large facility.

Findings

- ▶ The following points set out the key findings of the SWOT analysis conducted on the three sites:
 - ▶ All sites have existing infrastructure which could form the basis for a hub, though the DAFWA Manjimup research facility and the APMS sites tended to have the higher quality (better condition) and a broader range of existing infrastructure offerings.
 - ▶ The DAFWA Manjimup research facility is the only site with an existing agricultural land holding which could be used by the private sector. A number of stakeholders spoke of the value of a facility with land to trial growing techniques for new and different products.

- ▶ The DAFWA Manjimup research facility is owned by the state government and would therefore likely be the easiest of the three sites to develop into a hub from a legal, governance and administrative perspective. The development of a public-use hub on a private site is likely to encounter many difficulties even were the existing site owners supportive of the concept.
- ▶ The development of a hub on either the Bendotti or APMS sites would require the government to enter into rental agreements with the existing owners.
- ▶ There are existing plans (at an advanced stage) to construct additional processing and packaging facilities at the APMS site. It is unclear, how a government-led initiative would interact with these plans.
- ▶ On review of three potential sites, this analysis finds that the existing DAFWA Manjimup research facility is, on balance, the more preferred site for the development of a common-user food and beverage hub. Private sector ownership and existing development plans (that are not necessarily compatible with a food and beverage hub) work against the viability of the Bendotti and APMS sites.

Concluding remarks

- ▶ There is interest among local producers in the idea of a food and beverage hub in Manjimup however it is difficult to identify a solid case to justify the expenditure that would be required (by government) to establish one.
- ▶ The willingness and capacity of local producers to contribute financially to a hub is limited and it is unlikely that a food and beverage hub in Manjimup could be financially sustainable without ongoing support from government.
- ▶ Based on information obtained through desktop research and stakeholder consultation, it is likely that, in addition to funding capital costs, DAFWA (as proponent of a hub) would have to contribute to ongoing annual operating costs in order for a hub to survive.
- ▶ If the benchmark test of a hub facility in Manjimup is that the facility stands as a financially-independent operation, then the financial analysis undertaken by EY suggests that it would be difficult to achieve ongoing income levels to match in the estimated operating expenses of a hub.
- ▶ However, other options could be pursued by government to assist in the growth and development of the Manjimup region's food and beverage sector. These options are explored overleaf.



Next steps

- ▶ If there remains a strong desire in government to assist producers in the Manjimup region to take advantage of global opportunities that are emerging from changing economic and demographic conditions in Asia (and elsewhere), then other options to consider might include:

- ▶ *The facilitation of existing agriculture and research experts (such as ex-DAFWA employees) to enable a transition from government-sponsored employment to a private sector consultant type employment:*

Stakeholders have suggested that many ex-DAFWA employees have useful research and analytical skills but that many of these people may have difficulty in transitioning to a private sector type of role. The provision of training in business skills such as marketing and business planning may help bring this expertise to the market without the incursion of capital costs that would be associated with the development of a hub facility.

- ▶ *The development of linkages with existing agriculture consultants:*

Through the course of this study, it has become apparent that there is an emergence of private sector activity in the types of research and advisory services that might normally have been undertaken by government. Austrade's Industry Capability report lists over 100 companies that provide research and business services to the agriculture sector. There may be opportunities for DAFWA to work with these types of companies with the objective of assisting producers to access the services that are on offer. Again, this approach could represent a cheaper and targeted alternative the development of a food and beverage hub.

- ▶ *Collaboration with APMS to maximise opportunities for local producers to use the services and expertise that already exists offer:*

In many ways, the APMS site operates as a private hub facility similar to that which has been envisioned by DAFWA and stakeholder consulted with during this study. Some local growers already use the APMS facilities under commercial (and sometimes non-commercial) arrangements to trial new processing and packaging opportunities. Local growers may not always be able to access these services, particularly when a commercial agreement cannot be met. There may be a role for government to operate as an intermediary with the objective of enhancing the extent to which local growers can access the opportunities available through the existing APMS site and the expertise that is employed there. As per the concepts above, this approach could represent a cheaper and better targeted alternative the development of a food and beverage hub.

Appendix A: Summary of case studies analysed



Summary of case studies analysed

Overview

- ▶ Both nationally and internationally, there is an increasing interest in the merit of food and beverage hubs as means to assist local producers take advantage of technological or market developments. In turn, national and international food hubs case studies were selected in an effort to understand important factors for success. The case studies provided an overview of the different food and beverages hubs operating across the globe and demonstrated the various services provided by hubs, the governance structures that are used, and possible funding models.

Findings

- ▶ A number of characteristics of food hubs and food innovation centres were evident from the case study analysis. These include:
 - ▶ The use of an anchor tenant to oversee the hub: In addition to using the facility for their own purposes, anchor tenant often provide ongoing funding and support for the operation of food and beverage hubs.
 - ▶ Close linkages to transport, research or education: Locating within a university or in close proximity to an airport were common themes.
 - ▶ The role government: There were very few examples where government did not play a role in the development and ongoing financial operation of food and beverage hubs. It is not common for food and beverage hubs to be financially sustainable.
 - ▶ Governance is typically in the form of a governing board: Once setup by governments, a common operating model is the use of independent boards (reporting to government) as governance entities. These boards provide sector specific skills and independent oversight.

Figure 2: Case study governance structures and summarised learnings

Model	Governance structure	Summarised learning
<i>NZFIN</i>	<ul style="list-style-type: none"> ▶ Government led with a commercial focus ▶ Initially established by LGAs, due to profitability issues it was taken over by Callaghan Innovation ▶ Shared ownership between Callaghan (not-for-profit) and NZ Government ▶ Governed by an independent Board ▶ Funding is contributed by operators with revenue being generated through a user pay system. 	<ul style="list-style-type: none"> ▶ Without government subsidies (currently 91% of total revenue) the food network would not be able to operate ▶ Close linkages to transport and education ▶ Arrangements around ownership of IP are important to encourage innovation
<i>CSIRO Food Innovation Centre</i>	<ul style="list-style-type: none"> ▶ Completely government owned and operated ▶ Some revenue being generated from user pay models within the facility. 	<ul style="list-style-type: none"> ▶ Without government funding the centre would not be able to operate
<i>South Australia</i>	<ul style="list-style-type: none"> ▶ Government contribution to the inception of the project has been instigated ▶ Ongoing funding has not been disclosed. 	<ul style="list-style-type: none"> ▶ Without government funding the food innovation centre would not be able to operate at this stage
<i>Danish Food Cluster</i>	<ul style="list-style-type: none"> ▶ A membership organisation for businesses, research institutions and public authorities working in the food organisation. Members benefit from specialised cluster knowledge and events ▶ Operations occur independent of government and are governed by an independent board ▶ Funded by members through membership fees. 	<ul style="list-style-type: none"> ▶ Food and beverage hubs do not have to be stand-alone entities. Leveraging knowledge and scale can be executed through a national network of food and beverage facilities
<i>ARLA model</i>	<ul style="list-style-type: none"> ▶ Anchored by a single company representing the dairy industry ▶ Collaboration with external private and public partners, no government control. 	<ul style="list-style-type: none"> ▶ The use of an anchor company has ensured a sustainable model financially and in terms of operations
<i>Saskatchewan Food Industry Development Centre</i>	<ul style="list-style-type: none"> ▶ Not for profit organisation completely reliant on various government organisations ▶ Governed by a board consisting of government and university representatives, and industry consultants. 	<ul style="list-style-type: none"> ▶ Close linkages to education and industry

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