

# Southern Highlands Produce Hub Feasibility Study







# Agrology PTY LTD

## Acknowledgements

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**SUSTAINABLE EAST**

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## 1. Executive Summary

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The Wingecarribee Shire Council (WSC) commissioned this Southern Highlands Produce Hub Feasibility Study to map the opportunities and barriers to the development of a Regional Produce Hub (RPH) in the Southern Highlands and to determine its economic viability.

A RPH carries out or coordinates the aggregation, distribution, and marketing of primarily locally/regionally produced foods from multiple producers to multiple potential markets. They come in a variety of business structures and this study assessed three primary options including Farm to Business (F2B), Farm to Consumer (F2C) and a hybrid of both. The study also considered whether the RPH needed to have a physical presence or could be an online platform (supported by external service providers).

The detailed analysis considered production potential, sales requirements, land use permissibility, and commercial demand to determine financial feasibility. The final five models considered below form the basis of the feasibility study:

**1. OPTION 1:**

Physical Produce Hub: Farm to Business (F2B)

Commercial facilities for wholesale processing and distribution (~10,000m<sup>2</sup>)

**2. OPTION 2:**

a. Produce Hub: Farm to Consumer (F2C), full size store (1,000m<sup>2</sup>)

b. Produce Hub: Farm to Consumer (F2C), reduced footprint (300m<sup>2</sup>)

**3. OPTION 3:**

a. Integrated Produce Hub into an existing business: Farm to Consumer (F2C) with new internal build, fit-out, storage and staffing.

b. Integrated Produce Hub into an existing business: Farm to Consumer (F2C) with integration into existing space, shared storage and staffing.

The financial feasibility study was modelled over a 10 year operating period and considered the required revenue (sales) per annum as a key performance indicator. This allowed a comparison between each option to assess the total sales required for viability, the results are outlined in [Table 1](#). The total revenue requirements are based on the required incoming produce less the margin for each model. It shows the gross produce requirement (before margin) ranges from \$0.13M (Option 3b) to \$24.5M (Option 1); see [Table 2](#).

By considering the regions current production potential against the gross produce requirements a probability rating could be applied to the production potentials capabilities of supporting each business model, and an overall risk weighting attributed to the success of each considered Option ([Table 2](#)).

The Gross Value of Production (GVP) of food focused agricultural goods in the WSC LGA is only ~\$42 million. Around 97% of this is derived from 'slaughtered livestock' (\$23M), 'livestock products-milk' (\$15.25M) and 'commodity potato production' (\$2.1M). The result leaves only 3% (\$1.4M) of the total GVP to be dispersed among other categories such as vegetables, fruit, and wine grapes, etc.

The analysis concludes that the Southern Highlands does not have enough diversified volume of agricultural produce to make either a commercial F2B model (Option 1) or a standalone F2C model (Option 2) viable. The most likely outcome for success will be to consider a partnership with an existing retail outlet (Option 3) that will champion local produce and preferentially partner with local suppliers, however, even this will have a limited product offering based on current production volume and diversity.



Table 1. Summary financial feasibility of each option.

Option	Total estimated capital and operating costs (including contingency)*	Margin on produce	Total estimated revenue requirement per annum to achieve viability
1	\$(48,851,008.90)	20%	\$(30,687,324.79)
2a	\$(30,044,915.36)	25%	\$(11,505,629.90)
2b	\$(17,624,884.30)	25%	\$(7,929,622.01)
3a	\$(4,668,269.43)	50%	\$(1,213,750.05)
3b	\$(861,644.21)	50%	\$(267,425.81)

\*Years 1-12

Table 2. Summary funding and delivery risk profiles.

Option	Gross Produce Requirement (before margin)	Total Revenue Requirement per annum (after margin)	Production Possibility	Risk
1	\$(24,549,859.83)	\$(30,687,324.79)	Very Unlikely	Extreme
2a	\$(8,629,222.43)	\$(11,505,629.90)	Very Unlikely	High
2b	\$(5,947,216.51)	\$(7,929,622.01)	Very Unlikely	High
3a	\$(606,875.03)	\$(1,213,750.05)	Possible	Moderate
3b	\$(133,712.90)	\$(267,425.81)	Likely	Low

**Recommendations:**

Option 3a and 3b are the two most viable options that should be considered for further detailed financial modelling and implementation. They may not deliver the overall benefits that were the initial driver of the RPH concept, however they are the only viable options identified in this study given the current market and production conditions.

Whilst there is a strong desire to champion the Region's food and wines via local sales options and brand development, the fact remains that the area has both a relatively low diversity and total value of agricultural production. If the RPH sticks to the confines of the WSC LGA as its regional boundaries, then the viability of developing an independent RPH is considered unlikely. Further work could consider a broader regional alliance with producers in neighbouring LGA's; however, this is slightly outside of the concept of a RPH as it stands today.

Notwithstanding the recommendations of the RPH, we must remain cognisant of the greater vision that drove this study; utilising agriculture to future proof the region, drive economic growth and help maintain the green / rural image of the Southern Highlands. The region has huge potential to become both more self-sufficient and to export food for economic growth.

Located on the doorstep of Australia's largest city (Sydney) and the soon to be completed Western Sydney International Airport, the Southern Highlands is already directly connected via motorways and rail. So, it raises the question as to what can be achieved to further enable food production in the region?

Given the successful existing extensive agricultural practices of livestock, we recommend consideration of downstream service to support these sectors and capture value add within the regions (rather than losing it elsewhere), this could include functions such as an abattoir and processing plants.

Both diversification and intensification are also options for further consideration. Future work could consider how to promote and enable suitable sustainable intensive food production systems. Intensive protected horticultural systems are an example that could take advantage of the cool season climate and increase both the total GVP and diversity of the offering, without taking up large portions of land. There is a global movement of large-scale investment in this sector and attracting new projects to the region could be an opportunity of focus.





## 1.1. Production Volume and Diversity

The project process included an evaluation of the regions current agricultural production. This included a detailed review of census data (ABARES, 2017) and direct engagement with primary producers/ farmers, peak representative industry bodies and broader community (a survey through WSC Your Say Wingecarribee [www.yoursaywingecarribee.com.au/](http://www.yoursaywingecarribee.com.au/)).

The analysis concludes that whilst there is an underlying desire by many to develop a RPH, the Southern Highlands does not have enough diversified volume of agricultural produce to make either a commercial F2B model or a standalone F2C model viable.

The Gross Value of Production (GVP) of food focused agricultural goods in the WSC LGA is only ~\$42 million. Around 97% of this is derived from slaughtered livestock (\$23M), Livestock Products- Milk (\$15.25M) and commodity potato production (\$2.1M). The result leaves only 3% (\$1.4M) of the total GVP to be dispersed among other categories such as Vegetables, fruit, and wine grapes.

The outcome brings into question the region's ability to meet the underlying principles of a RPH. A successful RPH hinges on the ability to provide a wide range of products (albeit seasonal), however the research undertaken in the commissioning of this report highlights this as improbable at even a modest scale.

Strong sectors such as Dairy (\$15.3M or 37% of GVP) and Beef Production (\$15.2M or 36% of GVP) present potential, but also face significant limitations. The region does not have an abattoir or major dairy processing facility; therefore, all raw product/live animals are trucked out of the Highlands to be processed in other locations. The result is a loss of custody of product, and the value created in this process is lost to other regions, overall becoming somewhat illogical to bring it back as 'local' food.

## 1.2. Partnership with Existing Business

Notwithstanding the challenges identified, the community engagement process found that 92% of respondents want to purchase more locally grown food and 75% of local retail, restaurant or café operators want to source more local products. However, both groups felt constrained by a low availability of local produce and generally higher prices when compared to mainstream goods.

Given the limited total value and range of goods produced in the Southern Highlands, establishing a new shop front to operate a local F2C RPH would not be viable (a produce store needs to stock a wider range of products to attract customers, and requires a relatively high-volume turnover for viability). Hence, an alternative option considered is that of partnering with an existing store and setting up a "Local Produce Room".

This model envisages that the local produce component could be a separate room / area for only local produce with preferred commercial terms for local producers and well branded signage and consumer communication. This could be in partnership with a local produce/fruit shop to support and expand a local business or the producers may want to partner with a larger operator to amplify their brands and access a larger target market. Such a partnership will potentially make it financially feasible from day one and more sustainable over the long term.

An existing store has already absorbed the capital costs associated with establishment, and furthermore it has an existing network supporting a diversified offering for products missing from the region (i.e., Fruit). The benefit of this model is that the Council / Producers would have minimal establishment costs and significantly reduced operating costs. An existing store would be able to facilitate and reduce costs associated with logistics, storage, stocking, marketing, sales and operating costs allowing the producers to focus on what they are good at. However, a point worth noting is that the mark up on produce in such models is generally quite high (~100% from wholesale) meaning there is typically minimal benefit for local producers from a farm gate price point.



## 1.3. Brand 'Southern Highlands' and Regional Produce

A key outcome identified during the stakeholder engagement piece of this process is the fact that 78% of respondents are strongly in favour of strengthening a Southern Highlands brand and only 6% of respondents do not think there is benefit in developing a Southern Highlands brand for produce.

The study recommends the greatest benefit to the region will likely come from the continued development of the existing Destination Brand elevating the value of the goods and services within the region. With reference to a brand adding value and increased margin to the region's agricultural products, building equity in a destination brand allows the transfer of that equity to its products or services.

Destination and regional brands have succeeded all over the world, enabling product premiumisation and driving increased consumer demand for products and tourism. At the pinnacle of successful examples of regional food brands one can look to examples such as Champagne in France, the Barossa Valley in South Australia, King Island (dairy and beef), New Zealand dairy and Coffin Bay Oysters to name just a few.

There is a very real possibility to leverage such brand value in the region given the areas already high social status. Initial brand development should focus on products that can be produced consistently, of reasonable quantity and of high quality, it is a premium brand that suits this region. The current production capacity highlights beef products as a potential initial brand ambassador, though further work is required in this field.



## 2. Introduction

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Wingecarribee Shire Council (WSC) has released a comprehensive Destination Strategy: *Southern Highlands Destination Strategy 2020-2030* which charts a course towards a new future. It is described as a regional strategy that will enable it to retain its underlying character as one of the most appealing regional destinations for lifestyle and amenity and, at the same time, create new jobs, attracts young families and rebalances its demographics into the future. Diversification of its economic pillars will be key and allow new industries to emerge.

One of these pillars is Agriculture. With a focus on increasing the economic value and job creation in this sector via:

- Intensive crop growing and production nurseries.
- High value, niche production – more high value and niche products, capable of commanding a higher price and supporting lower levels of production.
- Value-adding processing – increased products from local production.
- Southern Highlands produce ‘brand’.
- Agritourism – farm stays, farm gate, technical tours, farm tours, events, café/restaurant.
- Food and beverage production – wine, spirits, beer production as well as various food products utilising local production.
- Wildlife Hospital.

It considers that a Regional Produce Hub could be a catalytic project to drive this sector and the goals identified above: *“The region has a large number of smaller farms, which combined would create greater scale and capability. The development of a central hub that could be used by many local growers to value-add their production would provide immense value to the local industry and assist in ensuring the industry’s financial future. Beyond the processing and value-adding capability, the hub may allow for aggregation of products under a single brand, which could provide opportunities in Sydney and other domestic markets, and potentially overseas.”*

WSA has commissioned this *Southern Highlands Produce Hub Feasibility Study* to map the opportunities and barriers to the development of a Regional Produce Hub in the region and ultimately determine its feasibility.

This study has focused on the following key deliverables presented within the body of this document:

- Identify the needs and benefits of a Produce Hub for the Southern Highlands region and surrounds.
- Identify suitable site characteristics to best support the establishment of a Regional Produce Hub (RPH) that will meet the business opportunities for regional producers, hub operators and destination markets.
- Provide rationale and specifications for the development of a Southern Highlands brand.
- Establish a business case to secure funding opportunities from commercial interests and government grants and identify possible sources of such funds.
- Include any additional benefits from the core Hub project including but not limited to: food security, food justice, food systems, education and training, agritourism and destination visitation, community health and resilience, small business support.



## 2.1. What is a Produce Hub?

Not all readers will be familiar with the concept of a Regional Produce (Food) Hub, accordingly, it is important that we clarify what it is, and what it is not. We note that the term Regional Produce Hub and Regional Food Hub are generally interchangeable, and for the purpose of this report we will use the term Regional Produce Hub, hereby abbreviated as “RPH”.

Whilst RPH’s are a relatively new feature in Australia (with very few operational hubs in existence), the concept is much more mature in the United States of America (USA), and accordingly much of the information originates from there, and it can help inform our approach here.

RPH’s are defined less by a particular business structure, and more by how their functions and outcomes affect producers and the communities they serve. The United States Department of Agriculture (USDA) states that the defining characteristics of a Regional Produce Hub as having the following characteristics (USDA, 2012):

- Carries out or coordinates the aggregation, distribution, and marketing of primarily locally/regionally produced foods from multiple producers to multiple markets.
- Considers producers as valued business partners instead of interchangeable suppliers and is committed to buying from small to mid-sized local producers whenever possible.
- Works closely with producers, particularly small-scale operations, to ensure they can meet buyer requirements by either providing technical assistance or findings partners that can provide this technical assistance.
- Uses product differentiation strategies to ensure that producers get a good price for their products. Examples of product differentiation strategies include:
  - Identity preservation (knowing who produced it and where it comes from).
  - group branding, specialty product attributes (such as heirloom or unusual varieties); and
  - sustainable production practices (such as certified organic, minimum pesticides, regenerative farming practices, or “naturally” grown or raised).
- Aims to be financially viable while also having positive economic, social, and environmental impacts within their communities, as demonstrated by carrying out certain production, community, or environmental services and activities.

RPH’s come in a variety of forms, and as part of this study we must consider all options to assess their potential viability.

## 2.2. Structures of an RPH

The fact that RPH’s are defined less by a particular business structure, and more by how their functions and outcomes affect producers and the communities they serve, RPH’s can exist in a variety of forms, and varied market approaches. This diverse acceptance of models also means that we must consider what form (if any) of RPH is the right fit for the Southern Highlands.

The following sections and [Figure 1](#) provide further details on these options.





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## 2.2.1. Marketing Approaches

There are 2 main approaches to targeted markets, and a hybrid model which is a blend of both. The choice of marketing approaches will often influence the physical characteristics of the RPH. Below we have provided a brief overview of the challenges each of these models aims to overcome for regional producers.

### Farm to Business (F2B)

- **Challenge:** Small to medium size farmers do not have sufficient volume and consistency to supply direct to major buyers. They can also lack facilities and expertise in value adding/processing, post-harvest storage, food safety and quality assurance programs, and logistics services.
- **Solution:** Provide farmers with access to high volume markets (retailers, exporters etc). This is done by consolidation of supply and filling gaps such as transportation, processing, storage and marketing.

### Farm to Consumer (F2C)

- **Challenge:** Sales channels have various 'middlemen' or links between farmers and consumers; thus, the farmer only receives a small fraction of the final sales price. Often farm products become commoditised and lose their identity or brand, meaning there is no potential for product premiumisation.
- **Solution:** Link farmers more directly to end consumers, creating a higher value per unit for their goods. A produce hub can be a centralised market and/or pick-up location. By ensuring identity preservation and branding opportunities producers can often enable premiumisation of products.

### Hybrid F2B and F2C

A combined model that provides the infrastructure to enable growers access to both direct consumer sales and larger institutional style sale channels.

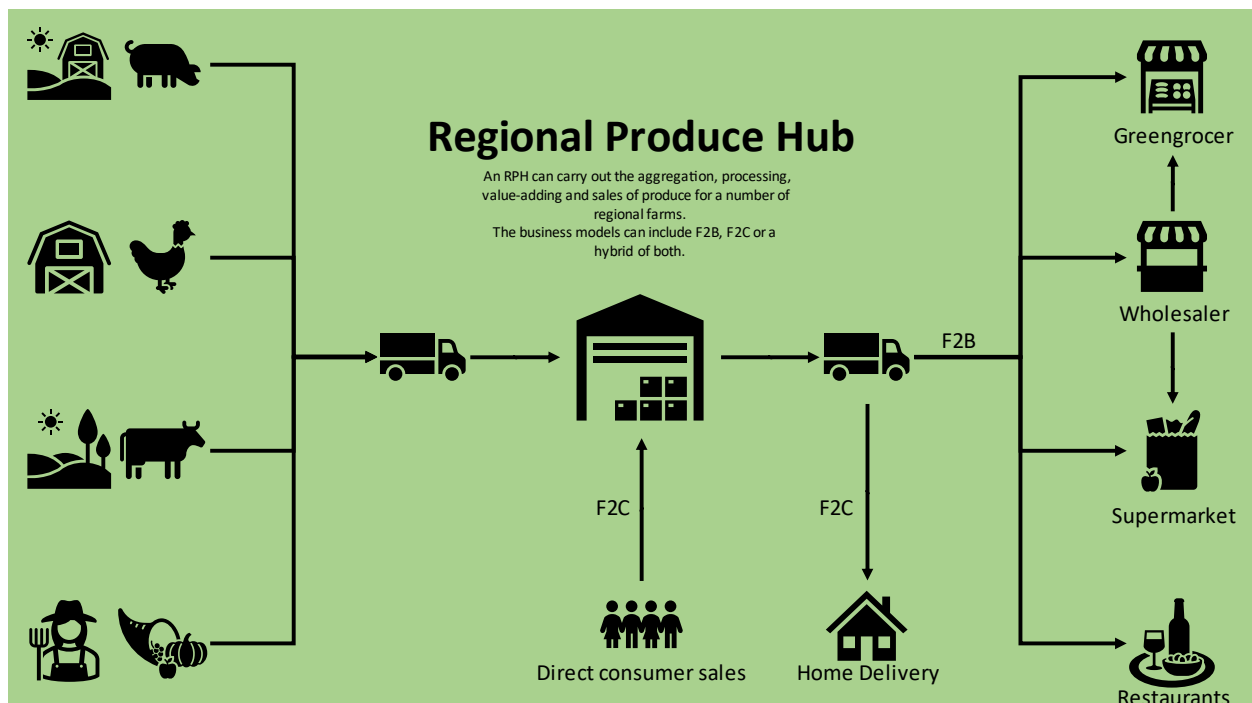


Figure 1. An RPH can carry out a variety of functions under differing business models. This diagram provides an overview of the most common variations.



### 2.2.2. RPH: Physical Presence or Online Platforms?

Depending on the type of business model decided, RPH's can be quite different, ranging from an infrastructure centric approach with a strong physical presence, through to the other extreme of say an online platform with a back end supported by minimal infrastructure and only basic aggregation and distribution functions.

#### **Physical Presence and Infrastructure Intensive**

Many RPH's are defined by a physical destination. The facilities can have variety of functions and infrastructure associated with supporting these. Typically, this will include-

- Owned or leased warehouse and/or shopfront that functions as a single drop-off point for producers and a pickup point for distributors and commercial customers and/or retail customers.
- Infrastructure to support activities such as: grading, packing, processing, labelling, dry and cold storage (freezing).
- Staffing and technology to ensure the RPH can meet customers' purchasing standards (such as food safety and quality systems).
- Logistics and distribution support- Many RPH's own or lease trucks that are used to carry out on-farm pickup or for delivery from the RPH to retail stores or institutional foodservice establishments.

Example: <https://happydirt.com/about-happy-dirt/>

#### **Minimal Infrastructure Models**

A RPH without a strong physical presence can still be defined as a Hub. There exists a variety of RPH's that have not invested heavily in aggregation, value adding and distribution infrastructure, and can even lack a singular physical presence. Two such exemplary models are as follows-

##### **1. F2B:**

A RPH can develop strategic partnerships with supply chain partners who provide warehousing, processing, and transportation services. The RPH manages the consolidation of orders and then arranges the aggregation, transportation, and sale of a wide variety of products to grocery stores or institutional type sales channels. The RPH never physically handles the product sold under its name but instead relies on farmers and contract transport services to enable aggregation and logistics.

Example: <https://redtomato.org/>

##### **2. F2C:**

A RPH can be an online presence, where consumers can purchase source-identified produce. The RPH acts as a marketing, sales and distribution service for multiple farmers. They often have their own centralised aggregation point, warehousing and logistics, or they can subcontract this role out.

Example: <http://www.oklahomafood.org/> & <https://localorbit.com/>



## 2.3. Notes on RPH Economic Challenges

RPH's bring many benefits to communities and farmers, including connecting local production with local consumption, instilling a sense of community and connection to the land, and overall better access to fresh food direct from farms whilst avoiding unnecessary logistics. In addition to the direct positive impact on farm viability and related community benefits, food localisation can enable long-term socioeconomic benefits and may serve as sites for entrepreneurial development and catalyse other locally owned business activities.

However, it is not all positive. A key challenge identified in this project was the economic viability or, therefore lack of for many of these operations. The most developed market for RPH's is the United States of America (USA), with some 234 food hubs in the USA (Sustainable America, 2021). However, these hubs are often not economically viable in their own right.

### 2.3.1. Lack of Operating Viability – Proven Risk

The USA has the largest number of operating RPH's and therefore is a key target for data and research. Most of the literature we reviewed indicated that the majority (however not all) of RPH's struggle to stand up as commercially viable in their own right, once donations and grants are removed. In fact, on average the profit margin of the USA food hub sector was negative 2% and the highest performing 25% posted only a 4% profit, (Farm Credit East, Wallace Center at Winrock International, Morse Marketing Connections, & Farm Credit Council, 2015).

A 2016 detailed study of 4 Food Hubs carried out by North Carolina University (Rysin and Dunning, 2016) found that on average losses sustained by hubs was US\$86,204 per annum (excluding donations). The Michigan State University Center for Regional Food Systems and the Wallace Center at Winrock International surveyed hubs in 2011 and 2013 to better understand factors related to food hub economic viability and found that of 78 self-identified food hub businesses, only half generated sufficient sales to cover their operational expenses (this did not include any form of return on initial investment).

When carrying out literature reviews on food hubs, it was clear that many were burdened by initial establishment costs and an inability to generate enough revenue to cover operating costs. The situation left RHP often reliant on infusions of public funds (grants and donations) to maintain a cash flow positive position.

Whilst it is certainly not the case that all RPH run at a loss, an awareness of the challenges that many face is important in considering the viability of developing such a unit.

Given the vastly different cost models between the USA and Australia, the actual metrics behind the financial models of operating and establishing a produce hub were deemed inappropriate for inclusion, and instead a local model is required.

### 2.3.2. Increase Price Point of Sales

Due to the aforementioned operating cost constraints (i.e., high operating costs), we find a natural outcome is that the price of goods must increase to make the hubs viable. A stakeholder engagement process carried out in a 2018 report conducted on the viability of a food hub in the Cardinia Shire Council, Victoria Australia, report that a RPH will never match the supermarkets (on price) due to their economies of scale, but that some consumers will choose to pay (potentially more) for better quality, fresher, local food (Global South, 2018).

The admission that higher price points are a likely outcome of a RPH when compared to say a major retail outlet means that they are at risk of becoming a boutique option directed at the affluent consumers rather than the general community. In many instances this fact may result in their viability being challenged, however the demographic of the Southern Highlands region, with particular emphasis on weekend visitors means that these higher prices might be more sustainable than in regions with lower socioeconomic situations, and is a fact considered in the overall analysis.



### 3. Background Review: Current Agricultural Land Use

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*The Gross Value of Production of food focused agricultural goods in the WSC LGA is ~\$42 million. The main region is Robertson – Fitzroy Falls with a value of ~\$21 million (50% of the study area).*

*Around 72% of the GVP is derived from dairy milk and beef production with both sectors contributing about \$15million each (36%).*

*The region produces a modest amount of vegetable crops of around \$3million with over \$2million of this coming from potatoes produced in the Robertson – Fitzroy Falls area. Whilst recognised as a ‘wine destination’ for many visitors, the LGA only produces ~\$147k worth of grapes annually and is somewhat reliant on imported fruits to bolster local wine production. Commercial fresh fruit production is almost non-existent at <\$40k.*

#### 3.1. Introduction

The intent of carrying out a current land use analysis is to inform the total production potential of the region and the diversity of products available; and therefore, determine the capacity if regionally produced foods to support a Produce Hub. It also serves to form a foundation for assumptions that can be tested and validated during the External Stakeholder Engagement work.

The approach involved analysing the total production of the region and delineating between the various production sectors and sub-regions within the broader LGA. Details of the Analysis approach are provided below and the resultant output in detail.

#### 3.2. Analysis Approach

Data analysed for this report is sourced from the Australian Bureau of Statistics (ABS) Agricultural Commodities Census data. The main purpose of the Agricultural Census is to provide benchmark information on agricultural industries. The ABS collects agricultural census data every 5 years from agricultural businesses that are recorded in the ABS’ Business Register and have an estimated value of their agricultural operations of \$40,000 or greater. This approach does unfortunately mean that very small farms and/or those not registered as a farming business will not be captured in this data set.

For the purpose of this report the most recently available data is that of the 2015-16 Census, noting that a future release is due in May 2021 (ABARES, 2017).

Data analysed focused on the Gross Value of Agricultural Production (GVP) and also considered the volume of production where appropriate/available. The Gross Value was considered important in informing the study as it indicates the value of production at wholesale prices realised in the marketplace.

The data has been analysed at a Statistical Area Level 2 (SA2) which allows a detailed analysis of both the total LGA and the regions within the LGA itself. Details on the selected SA2 areas are provided below.

#### **NOTE:**

This data does not capture the significant value added to products post farm gate that occurs through product transformation or value adding. This is particularly important for sectors such as grapes (that would be transformed into wine), livestock production (transformed into cuts of meat) and dairy (as processed milk and transformed products like cheese, yogurt and butter).





## 3.2.1. SA2 Areas Explained

SA2 areas are medium-sized general-purpose areas built up from whole Statistical Areas Level 1. Their purpose is to represent a community that interacts together socially and economically within a defined Area. SA2 regions are delineated based on criteria such as:

- Population: generally, have a population range of 3,000 to 25,000 persons, average of around 10,000.
- Functional Area: a functional area is the area from which people come to access services at a centre. This centre may be a rural town, a regional city, a commercial and transport hub within a major city, or the major city itself.
- Growth: SA2s containing regional towns or on the fringes of larger cities have been designed to contain: the urban area, any immediately associated semi urban development and likely growth in the next 10 to 20 years.
- Gazetted Suburbs and Localities: Where possible, the SA2s have been designed around whole gazetted suburbs or rural localities. This is to make the regions as meaningful as possible to users unfamiliar with the statistical geography and to facilitate address coding to the various units of the Australian Statistical Geography Standard (ASGS).
- Local Government Area (LGA): Local Government Area boundaries were considered in the design of the SA2s and were often adopted where the Local Government Area boundary satisfied one or more of the following:
  - it closely aligned with gazetted suburb boundaries
  - it reflected the underlying settlement pattern
  - it represented the functional area of a regional town or city had a high degree of recognition amongst stakeholders
  - it aligned to a significant recognisable geographical feature.

Within Australia there are currently 2,310 SA2 areas. The LGA of WSC is made up of six SA2 areas located wholly within the shire and additionally two smaller regions of two SA2 areas. The data analysed in this report is sourced from the six key SA2 areas, noting that that the additional two SA2 areas do not have Agricultural production within them in the WSC LGA.

*Table 3. SA2 areas utilised in the land use analysis.*

SA2 Area	SA2 Regional Code	Used in Analysis
Bowral	114021284	Yes
Goulburn Region	101011001	No
Hill Top – Colo Vale	114021285	Yes
Illawarra Catchment Reserve	107021135	No
Mittagong	114021286	Yes
Moss Vale – Berrima	114021287	Yes
Robertson – Fitzroy Falls	114021288	Yes
Southern Highlands	114021289	Yes

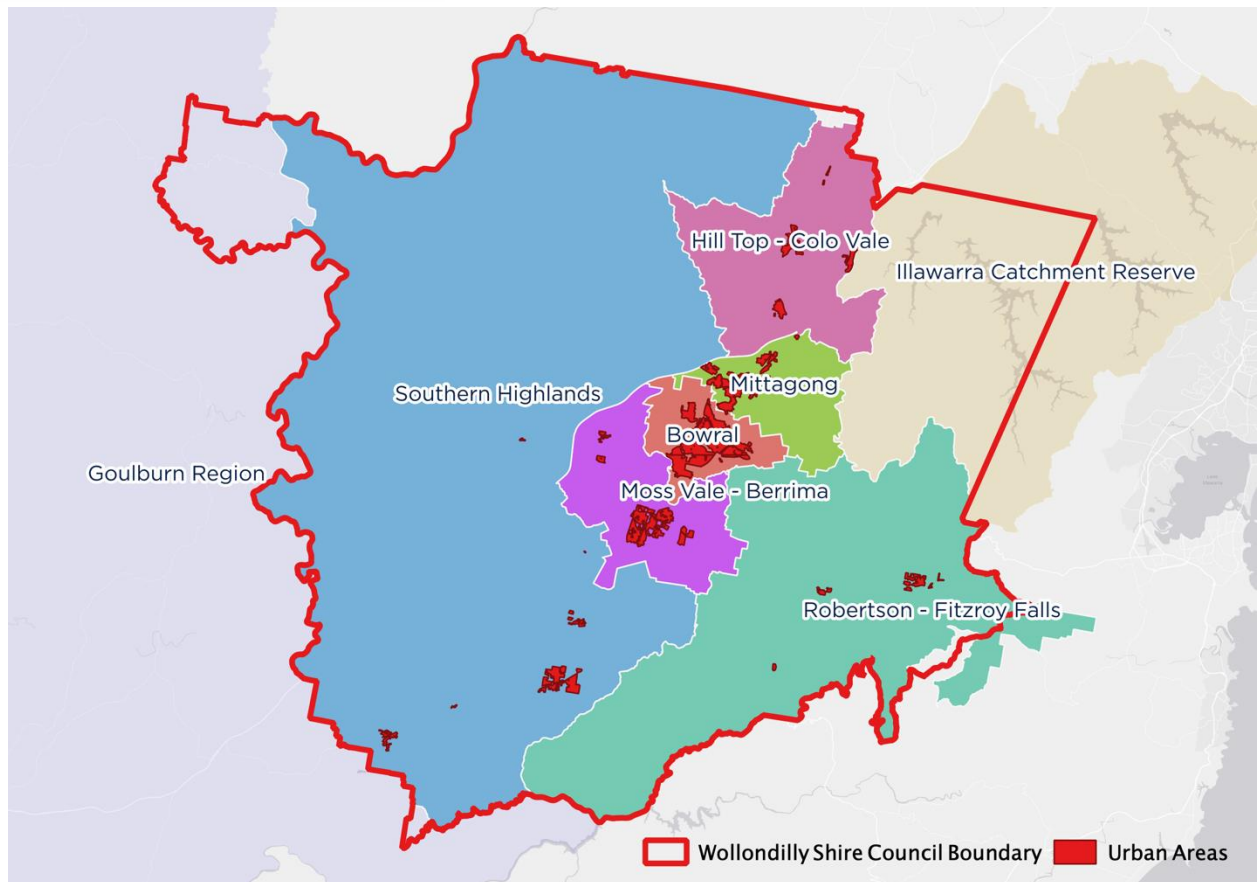


Figure 2. Map showing the SA2 areas contained within the WSC LGA.

### 3.2.2. Gross Value of Production Definition

The analysis focused on primary categories for production having omitted non-food-based production (such as nurseries, cut flowers and hay) and focused on food crops, livestock and livestock products. The approach analysed the Gross value, that is the value of production at the point of sale (i.e., where it passes out of the Agriculture sector of the economy). It is the value placed on recorded production at wholesale prices, realised in the marketplace.



## 3.3. Gross Value of Production- Outcomes

The total GVP of the selected SA2 regions is ~\$42 million.

The largest SA2 region by value is Robertson – Fitzroy Falls with a value of ~\$21M (50% of the study area), followed by Hill Top – Colo Vale (\$8.1M), Southern Highlands (\$6.3M), Moss Vale – Berrima (\$4.83M), and Mittagong (\$1M). Bowral is the smallest area by land mass and is generally developed urban/residential areas with minimal agricultural production (<\$700k).

The largest sectors are slaughtered livestock (beef, poultry, sheep and pigs) at \$23M and Livestock Products- Milk at \$15.25M, which when combined make up ~92% of the regions production value. Further refining the categories, we can see that the largest contributors to the regions production are dairy milk and beef cattle production which both contribute around \$15M each and when combined equate to some 72% of the total GVP for the region. Poultry Meat production is also a large sector contributing around \$7.7M or 18%.

Vegetable production is quite modest with just under \$3M produced annually, around \$2M of this generated directly from potatoes (~4,000tonnes) produced in the Robertson – Fitzroy Falls. This leaves a relatively small number of other crops which when combined only contribute <\$1M in value.

There is a relatively small amount of local egg production equating to around \$374k, however this could still be a viable input to a local Produce Hub.

Whilst the region is recognised as a tourist destination for cool climate wines, the total annual grape production is modest with only \$147k produced (around 430tonnes). This data supports comments made by wine producers in the region who indicate a reliance on imported fruit/wines to meet existing market demand.

Fruit production is almost non-existent and with <\$40k produced and cannot be considered as significant industry or potential contributor to a Produce Hub.

Table 4. GVP for each SA2 area and commodity type.

Commodity Description	Robertson - Fitzroy Falls	Hill Top - Colo Vale	Southern Highlands	Moss Vale - Berrima	Mittagong	Bowral	Total Value	% by Commodity
Livestock slaughtered and other disposals - Total	\$276,726	\$7,687,571	\$630,067	\$2,321,611	\$5,175,191	\$6,911,580	\$23,002,745	55.1%
Livestock products - Milk	\$11,750,923	-	\$1,018,302	\$2,487,329	-	-	\$15,256,554	36.6%
Vegetables for human consumption - Total	\$741,706	\$47,536	\$4,733	-	\$2,072	\$2,123,847	\$2,919,895	7.0%
Livestock products - Eggs	\$63	\$374,783	\$791	\$700		\$362	\$376,698	0.9%
Fruit and nuts - Grapes - Total	\$10,575	-	\$34,178	\$21,633	\$77,705	\$2,983	\$147,073	0.4%
Fruit and nuts (excluding grapes) - Total	\$18,045	\$2,030	-	-	-	\$16,625	\$36,700	0.1%
<b>Total Value</b>	<b>\$20,806,020</b>	<b>\$8,111,920</b>	<b>\$6,274,061</b>	<b>\$4,831,272</b>	<b>\$1,047,053</b>	<b>\$669,339</b>	<b>\$41,739,666</b>	<b>100.0%</b>
<b>% by Region</b>	<b>49.8%</b>	<b>19.4%</b>	<b>15.0%</b>	<b>11.6%</b>	<b>2.5%</b>	<b>1.6%</b>	<b>100.0%</b>	

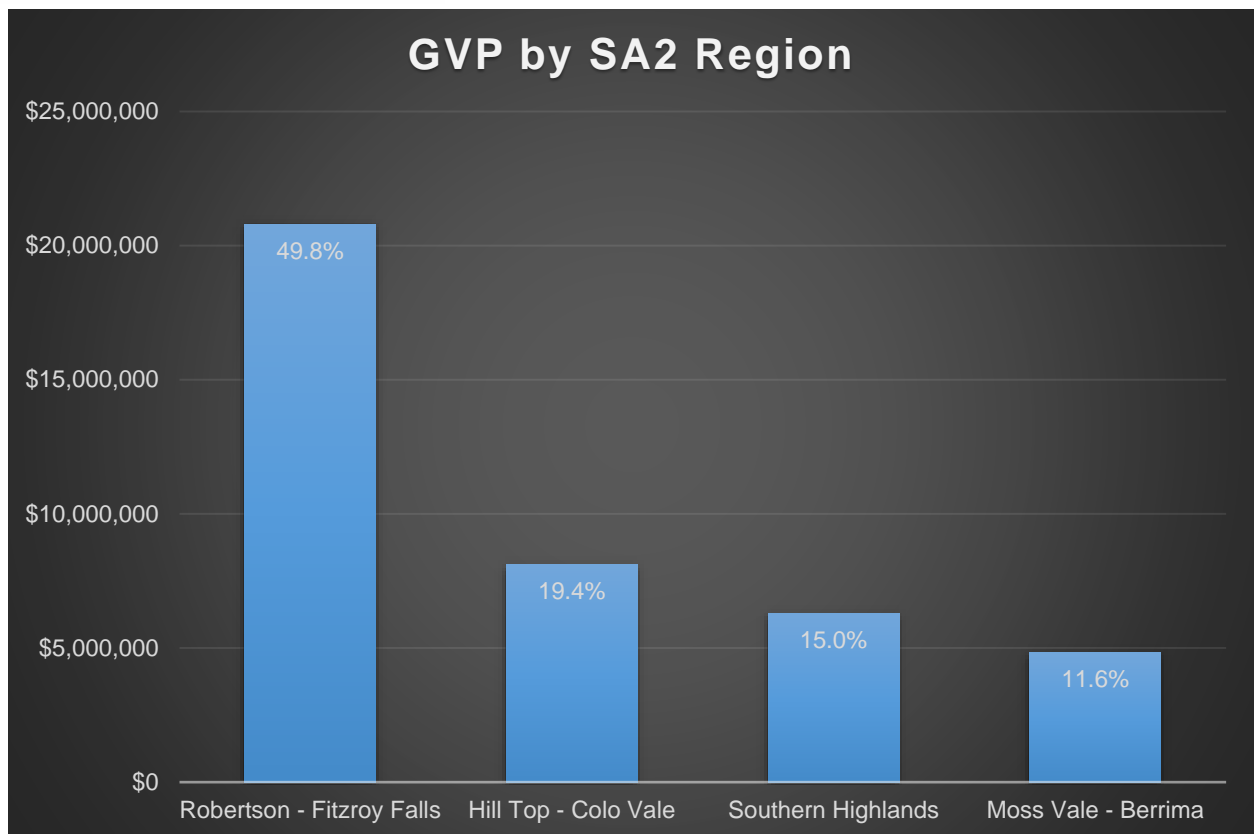


Figure 3. GVP by SA2 area.

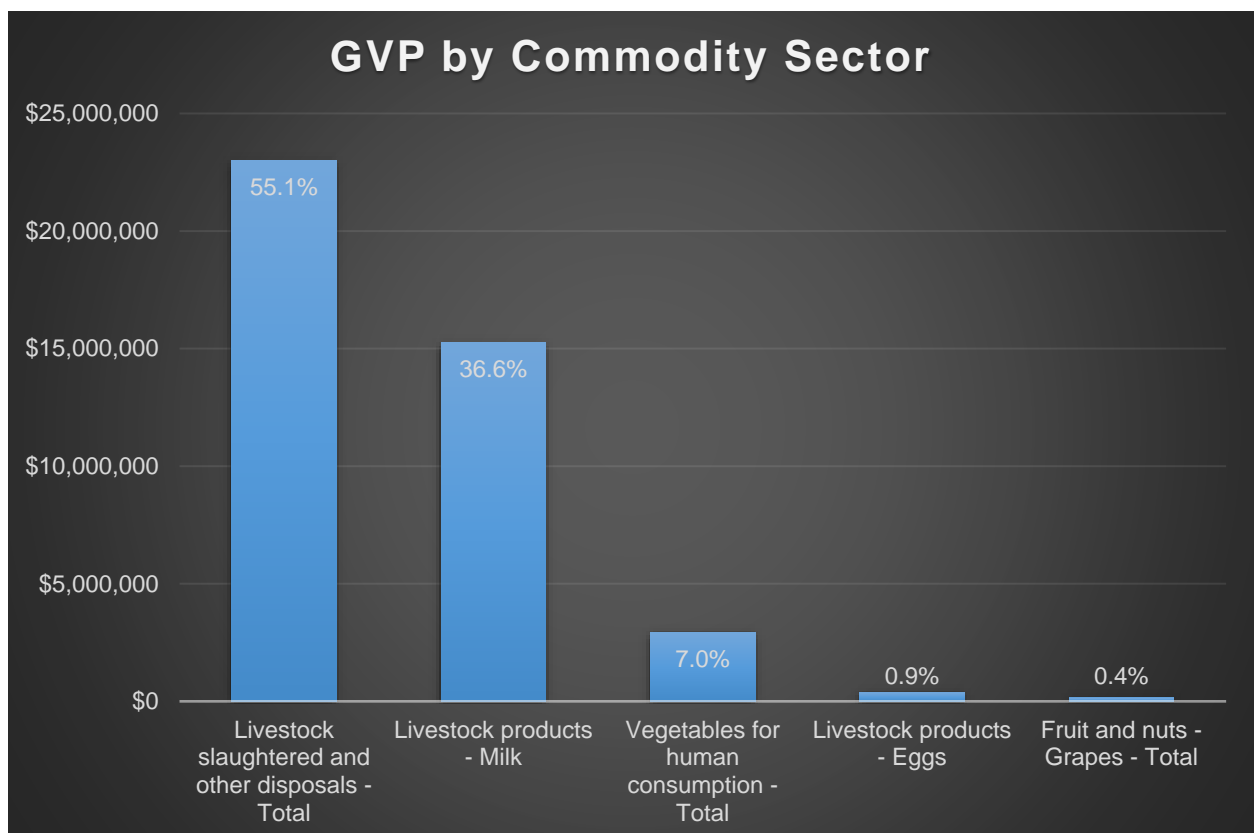


Figure 4. GVP by commodity sector.





## 4. Stakeholder Engagement: Key Findings

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The Produce Hub Feasibility Study has sought to facilitate whole-of-life engagement throughout the project. In practice, this was aimed at and has delivered engagement that has both shaped the direction of analysis, models for a future produce hub as well as testing potential produce hub models.

Engagement through the project has sought regular input through the process, which has been anchored around four major stakeholder engagement areas. These are:

1. Internal stakeholder engagement with different teams from Council.
2. Agriculture producers and farmers engagement forum with a range of local growers, farmers and peak representative bodies.
3. Community engagement through a 'have your say, survey'.
4. Direct follow up and interviews with local producers' representative of key sectors identified in the study.

Each of the three major engagement activities, as well as the impact on shaping the feasibility of a produce hub is outlined below.

Engagement with stakeholders also sought to validate the data analysed in the Land Use outcome described in [Section 3](#).



## 4.1. Internal Council Engagement

The first major engagement activity was the internal Council engagement meeting. This was held on the 1<sup>st</sup> of February 2021 at the WSC chambers in Moss Vale. The Council engagement informed that in terms of production, there is a number of land use constraints to increasing intensity. Council is also interested in exploring any physical produce hub options in the Southern Highlands Innovation Park (SHIP). This has informed local understanding of agricultural and how a hub relates to current and future zoning.

### 4.1.1. Key Findings

The key findings from the Council engagement centred around the need to increase the resilience of the Southern Highlands economy, leverage further benefit from the tourism boom as well as facilitate adoption to modern and sustainable farming practices. The feedback also dealt with specific local issues which could impact the type and operation of the produce hub.

A specific extraction of key points is outlined below:

- The overarching aim is to drive more resilience into the WSC local economy and prepare for future recovery as the investment is coming from bushfire recovery schemes.
- There is a desire to seek agribusiness/agriculture alternatives for benefits if a RPH model is not feasible.
- There is strong focus on the desire for a regional brand that is distinct to the Southern Highlands with fresh produce as a central part of that.
- There would ideally be consideration of competition from other regional areas such as Food in the Capital and possible joint options as an alternate consideration.
- All seven LGAs in the Southern Inland Region would likely have some desired commonality in a produce hub.
- At present, there is restriction on protected cropping (greenhouse production). Potential for protected cropping/newer technology that is more weather resistant, and more aesthetic is acknowledged as being in demand but there are limited opportunities under the current Local Environmental Plan (LEP) for those land uses.
- Understanding what the per hectare costs of infrastructure and development are in the Southern Highlands Innovation Park (SHIP) area is important to consider the possibility of a RPH in that location.
- The project team could consider land adjacent to key interchanges connected to Hume Highway. This could include understanding if there are implications or opportunities depending on the outcome of the Hume Coal proposal; relating to pollution, contributions and availability of land.
- In terms of locations, potential sites could be considered in the Northern Gateway area around Braemar given proximity to freeway; underutilised transport yards at the Southern Regional Livestock Exchange; Council owned golf courses; a Moss Vale Showgrounds Proposal. Noting there is a decommissioned abattoir near the Exchange.
- Any provisions / restrictions based on zoning? Consideration for Council to permit so don't necessarily limit analysis on zoning. Consideration could be given to smaller rural lots with no dwelling entitlement as it may improve viability.
- Agribusiness vs Equine uses are competing for land in SH and the long-term impacts of this should be considered.



## 4.2. Local Farmer Engagement Workshop

The second major engagement activity was an externally hosted forum with local farmers, producers and growers, held on Wednesday 17<sup>th</sup> of February 2021 at Mittagong RSL. The key purpose of this engagement was to test specific produce hub models with local growers and producers.

Invitations were sent to 35 Southern Highlands producers representing various sizes and types of local production, with 24 people in attendance. Overall, most producers were supportive of raising the bar for a Southern Highlands Premium Brand and liked the idea of shared logistics/transport/marketing costs but were unsure about a physical RPH. It was also clear that the definition of what a RPH is would be an important part of this process.

### 4.2.1. Key Findings

The key findings from the engagement focussed on the desire to serve higher value markets, reduce costs, improve logistics and manage certification and compliance matters. There was minimal support in respect to enabling consolidation and wholesale supply to major retailers. Although not everyone agreed on all aspects discussed in respect to the RPH concept, there was strong support for branding and growing of Southern Highlands by all attendees.

A specific extraction of key points is outlined below:

- An aggregation platform to better manage supply and demand would benefit local growers. There is a major cost associated with supply of produce to buyers and markets and a level of facilitation or support would be a major benefit to growers. Logistics / transport seemed to be a key concern.
- Demand to unlock the data potential and understanding of what there is in terms of production volumes and values. Supply chain data and buyer demand data is very informal and mixed. A centralised data portal would be a welcome way to improve supply and demand efficiency.
- Mobile distribution and aggregation of produce volumes was a popular option and would cut the need for a physical produce hub and allows for better producer control over their products. However, concerns were raised in terms of food safety and compliance for high-risk products (like meat).
- Target markets for supply and sale of produce (buyer/seller) should be broad, yet relevant to high value markets, with specific targets to include Canberra, Southern Highlands, South Coast and Sydney and understand how Branding and/or shared logistics could support this.
- Operational Funding Model will be critical as splitting the distribution and buying/market costs would be appealing to growers. Operational Funding Model, Governance and Branding needs better definition before the producers can support the concept of a RPH.
- Regenerative farming and provenance are something supported by most growers, but a common standard is something that would help and could be integrated into the branding.
- Support for smaller niche producers to be connected to help market products and deliver a premium brand.
- The local and tourist retail aspect of a produce hub is critical and considered something that is currently underutilised. Local produce does not feature enough on restaurants who consider it too expensive sometimes.
- The education element was something that would be popular if a way could be developed to better link education with farming practice.
- Most producers support regenerative farming and provenance identity practices, and whilst Certified Organic production is sometimes attractive, it was considered too restrictive by many producers.
- The Highlands should target an Overarching premium brand, not a commodity producer.
- Producers would like education collaborations (i.e., with the High School, TAFE or Universities).
- There are no abattoirs in the Highlands, so some producers suggested a mobile abattoir; need to better understand regulations and license requirements for this as there were risks identified.



## 4.3. Have Your Say Survey

WSC facilitated the survey through Your Say Wingecarribee promoting their data base to ensure a broad spread of potential respondents were invited directly, along with access available to the public via options such as Council websites and social media.

The Survey was released on the 4<sup>th</sup> of March and finalised on the 22<sup>nd</sup> of March 2021. The intent of the survey was to enable local producers, produce buyers, residents (and even visitors) to have their say in respect to the opportunities relating to developing a Produce Hub in the Southern Highlands.

The majority of respondents see the idea of a produce hub as positive and would enjoy the ability to purchase more locally grown produce. However, many constraints were also identified around matters such as logistics, lack of existing facilities and infrastructure, low availability of product and high prices of local produce. The latter facts reflect some of the earlier findings that could limit such a RPH.

The majority of primary producers who responded are livestock producers, with a very limited number of vegetable and fruit producers, again this reflects the data analysed in [Section 3](#) of this report.

An undeniable outcome of both the Producer workshop and community survey was a desire and belief in the benefits of further developing Brand Southern Highland. 78% of respondents are strongly in favour of developing this brand and only 6% of respondents did not think there is benefit in developing a Southern Highlands brand for produce.





## 4.3.1. Participant Demographics

In terms of community engagement and participation, the survey saw the following:

- Individual Interaction
  - Aware Participants – 265 participants visited the survey page.
  - Informed Participants – 164 respondents downloaded documentation and / or engaged with the platform.
  - Engaged Participants- 78 individuals completed the survey.
- The majority of contributing participants came via direct email contact (invitation via email), with limited flow from other sources such as word of mouth, council websites or social media etc.
- 17 participants were classified as being a Farmer, grower, or primary producer.
  - Most of these were part time or hobby farming.
  - Only one farmer with over \$1m turnover participated.
  - Primary producers were predominantly livestock based (~60%).
- 4 produce buyer / retail, restaurant or café operators participated.

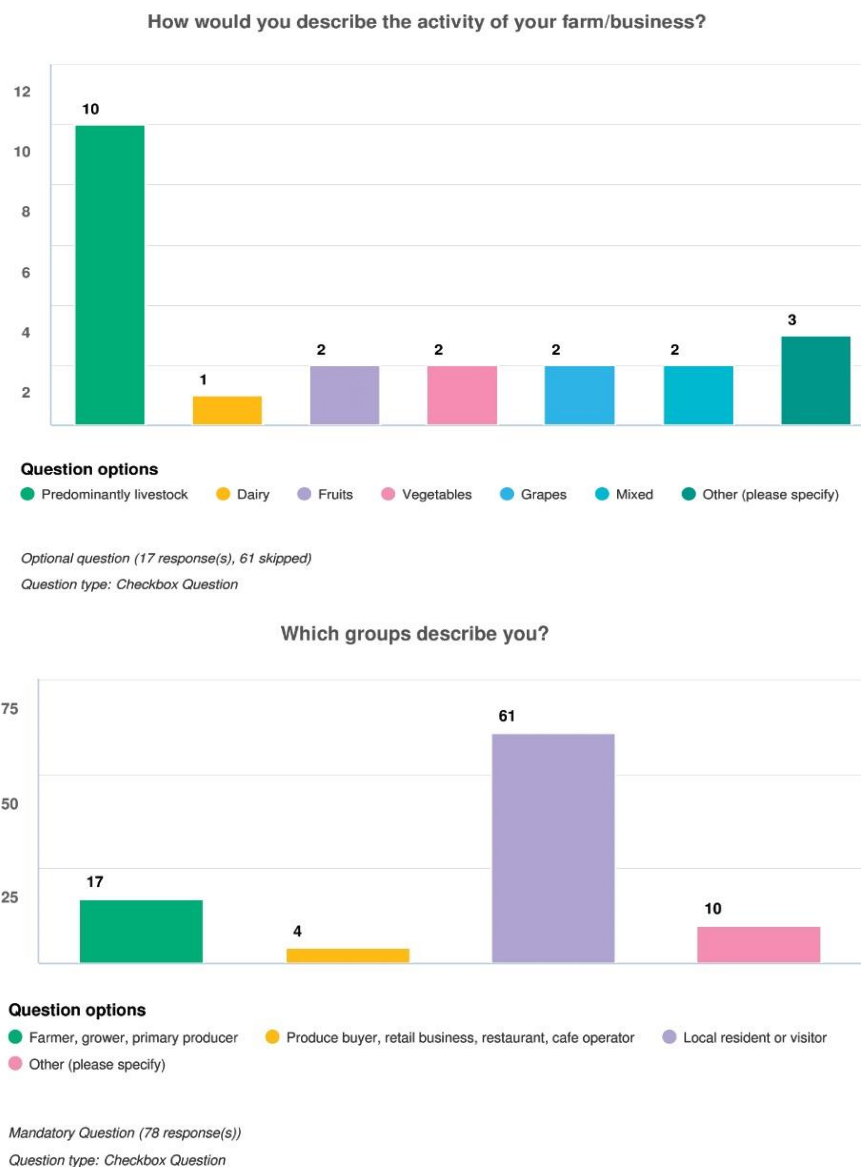


Figure 5. Participant demographics in the Have Your Say Survey (note users could select more than one option).



## 4.3.2. Key Insights and Takeaways

92% of respondents want to purchase more locally grown food and 75% of local retail, restaurant or café operator want to source more local products. However, the biggest challenge to this is securing local produce due to:

- Lack of knowledge of what is local.
- Lack of availability in local shops.
- An Information gap of local agricultural production.
- General lack of supply.
- Higher relative cost for local produce when compared to broader market.

An additional challenge identified is that of the producers who answered the survey, the majority of their produce is already sold locally, and almost 75% are happy with their existing supply chains (hence the reason for the conflicting responses may be that there isn't enough local produce to service the demand).

Specifically, for the producers:

- 59% think a produce hub would benefit their F2B business opportunities.
- 64% think a produce hub would benefit their F2C business opportunities.
- 53% would like to sell to a larger market.
- 75% are happy with their current supply channels.
- A local market for restaurants, cafes, hotels etc to source local products was the most popular choice in terms of how they saw a RPH work for them (compared to say large scale aggregation / wholesale or consumer fronting storefront in high exposure locations).

Additional elements of a RPH that producers believed would add value to their business included:

- Opportunities for more direct consumer sales (F2C).
- Shared logistics costs: Local sales are too small to warrant transport cost for an individual operator.
- Opportunities to value-add: Provide central produce packaging/processing facility to facilitate compliance related requirements.

The study also highlighted the fact that the responding producers are facing challenges on many fronts, noting that logistics issues associated with getting produce to markets is a major limiting factor, followed closely by labour costs and availability.

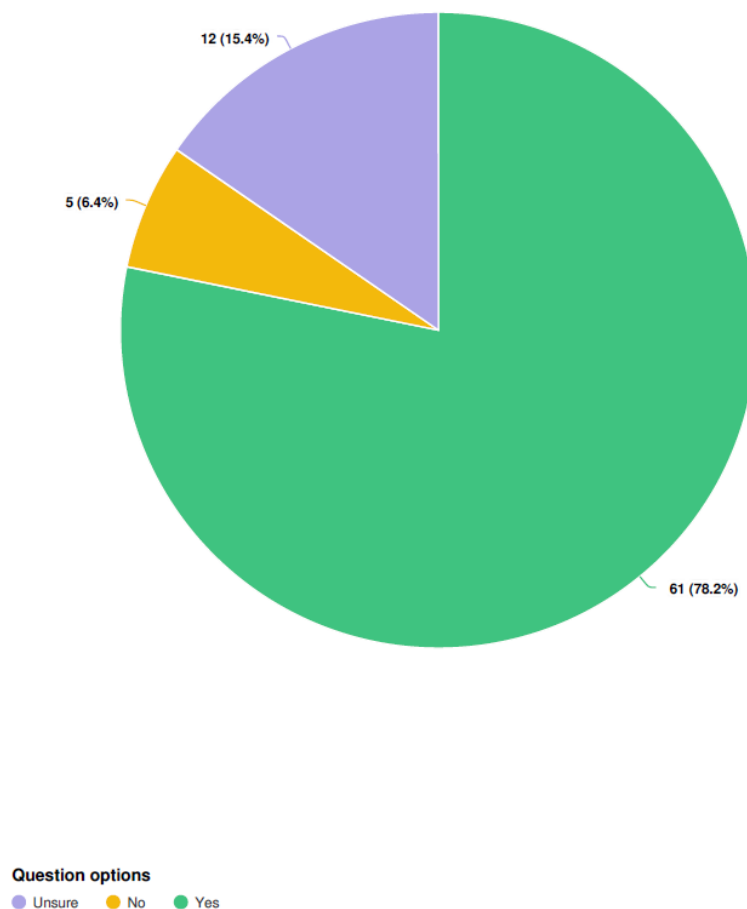


### 4.3.3. Support for Brand Southern Highlands

78% of respondents are strongly in favour of developing this brand and only 6% of respondents did not think there is benefit in developing a Southern Highlands brand for produce. Respondents included their opinions on what the brand could be and what it could bring, this included:

- Draw on the history and reputation of Southern Highlands. It is already known around Australia as classy, and high quality, leverage this.
- Could the Highlands become the Centre for Slow Foods - beautiful high-quality produce made with care and commitment.
- Whether it is grass fed beef, or cultured cheese, if it is local wines, or fruit direct from the orchard, or jams and pickles -sold at local markets, or served in quality restaurants it should be reasonably priced and high quality.
- The great cuisines of France and Italy grew from local small producers doing food with style.
- If you foster a distinctive culture the market will grow, and it will also boost tourism.
- There are already good foundations for this, and there is untapped human knowledge.
- It could also be supported by food and hospitality courses at the Moss Vale TAFE.

**Do you think there is benefit in developing a Southern Highlands brand for produce?  
e.g. King Island, Margaret River**



*Figure 6. The majority of respondents supported a Southern Highlands Produce Brand.*



## 4.3.4. Additional feedback

Beyond the specific questionnaires, respondents were given the ability to provide direct feedback to help shape the study and inform the research process. In this respect some of the content identified included the following:

- Development of land Sharing / secondary dwellings / farm sharing programs to:
  - allow younger families to move to farms and utilise the land for production (those that cannot afford to buy land).
  - Landowners not utilising land for agriculture should actively work with farmers so that land can be unlocked for agricultural ventures.
- Enhanced brand / transition to regenerative farming practices:
  - Focus on the small, diversity of produce, organics/permaculture/regenerative practices.
  - Include social and cultural values in accounting for 'value of produce' rather than the industrial term 'production'.
  - Create produce not only more sustainably, but more nutrient dense and valuable.
  - Food security - Transport costs are likely to increase as fossil fuel sources decline so regional supply chains will be required. This will also help to reduce greenhouse gas emissions and therefore alleviate some of the anthropogenic climate change impact.
- Incentives / reduced regulation / education:
  - Active farming producing land lots get preferred / reduced rates.
  - Provide growers with low-cost loans, a rebate on WSC charges to encourage development, (i.e., rates, water, DA costs, etc) encouragement of development of a dedicated marketplace.
  - Ability to easily without major council costs to set up on farm sales, cafes etc and the support of the council to promote the region.
  - Allow farm gate produce sales.
  - Zoning to allow small scale farming.
  - WSC could also establish carbon zero accounting and targets, waste minimisation, soil regenerative and protective guidelines, and strategies to prevent polluting and extractive industrial farming strategies such as feedlots, monocultures, the herbicide, and pesticide use that pollutes water, damages ecologies and kills bees.
  - Improved accessibility to skilled labour, transport subsidy for workers.
  - Government subsidy for start-ups.
  - Better Education in sustainable /regenerative agriculture.



## 5. Opportunity Analysis

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The opportunity analysis sets out to define the identified product opportunities in respect to developing a RPH and to help guide the selection of potential operating models and business structures.

The analysis considered existing agricultural production and infrastructure capacity to process, handle and distribute fresh produce which currently exists in the region. To ascertain this the following processes were carried out:

- external stakeholder engagement workshop;
- direct interviews with major producers; and
- detailed analysis of Agricultural Production Values obtained through the Australian Bureau of Statistics.

The approach considered the willingness of suppliers and buyers to engage with a RPH concept and the commercial realities of what is currently produced in the region. Put simply, the RPH concept requires an underlying supply of product, and the process set out to quantify this.

Whilst agricultural production in the region is quite strong and a large contributor to the economy, it was not as diverse as people perhaps thought, and is heavily reliant on the livestock sectors with very minimal horticultural production, meaning there is not an abundance of fresh fruit and vegetables. Furthermore, there is a general lack of existing facilities and service providers for post-harvest requirements, processing, and distribution.

The strength of the tourist wine sector is also not as well supported with local production as we might have first imagined, with a relatively modest volume of grape production, a sentiment echoed by local producers who note a reliance on imported fruit and wine to meet demands.

### 5.1. Identified Opportunities and Limitations

#### Opportunities –

- Leveraging value added dairy products, and growing local processing and value adding opportunities.
- Beef, sheep and poultry meat production- these are already well-established sectors in the region.
- Brand development and premiumisation of relevant products.
- Viticulture, brewing and distilleries- the GVP of grape production does not fairly represent the value that these sectors bring to the region, nor their contribution to the Destination Brand.

#### Limitations –

- There is almost no fruit production in the region (excluding grapes).
- Limited vegetable production occurs, except for potatoes which are a low value commodity product.
- Meat production of both pigs and sheep is relatively limited.
- The region no longer has an abattoir, therefore killing and dressing of meat would require additional investment prior to value adding/sales at the producer hub or transportation to other regions for processing (some value lost). Transporting live beasts to remote abattoirs and bring meat back is not ideal, it results in loss of custody and increased stress on animals and cost to producers.
- The bulk of dairy is generally limited to milk production, and lacks value adding and further processing facilities in the region. Most milk is already sold under contract to major retailers/processors. There are niche operators in the region who do transform, and value add products, however this is relatively small scale.





## 5.2. Discussions and Implications for the RPH

Whilst the region is well represented in terms of livestock production and dairy/milk, there is still a clear limitation in respect to the availability of the requisite downstream services needed to transition these products from farm to consumer ready offerings.

The region no longer has an abattoir, and therefore, both killing and butchering services for livestock are missing, engagement with local producers has identified this as a key barrier to servicing the market.

Whilst there is a large dairy sector, this revolves around bulk milk production and there is very little further processing and value adding occurring in the region for most producers (e.g., products such as cheese and butter etc). Most milk is already sold under contract to major retailers/processors, and they are not able to readily service the local market. To remain viable dairies have had to become larger, and therefore they require contracts to larger customers that hence limit their local opportunities.

When the term RPH is raised, most people automatically think of fresh fruit and vegetables. The nature of a successful RPH model is generally based around the strength of a regions existing production capacity. Whilst this can be seasonal in nature, it should still be relatively diverse otherwise there is a real risk of not being able to satisfy consumer demand / justifying the development of the RPH. When we look at production in the WSC LGA, there is negligible fruit and nut production, and vegetable production is limited to potatoes and a modest assortment of other cropping species.

When analysing the data representing current production practices it is clear that a large-scale F2B RPH is not really a viable prospect, unless it was heavily focused on livestock products, however these will still likely require significant investment in a pre-step to (such as an abattoir) to prepare products for further value adding and sales at the RPH.

There is likely still the potential to service a smaller scale F2C type models in the region, however, we are cognisant of the fact that both vegetables and fruit supply will be constrained unless producers wish to increase their current offering. In this respect investment in intensive production solutions that also enable extended production periods would be invaluable, and this could be based around modern protected cropping solutions (such as glasshouses), however current planning regulations may need to be modified to enable this.

A minimal investment 'online only' RPH was also considered (see [Section 2.2.2](#) for more details on this approach). However, these models still require a degree of imbedded infrastructure to be successful and normally rely on either leased facilities or more typically contracted services to carry out the physical handling, consolidation and distribution of the produce. The study identified a clear gap in this respect as there are few existing service providers available and therefore this approach is not viable.

The following tables in [Section 5.3](#) provide a detailed overview of subcategories within the major sectors in terms of their GVP. This helped inform the study process as to the diversity of products that might be available for a RPH.



## 5.3. Detailed Break Down of Commodities Produced

As detailed in [Section 3](#), the GVP of food focused agricultural goods in the WSC LGA is ~\$42 million. Around 93% of this derived from livestock meat and livestock products, leaving only around 7% of GVP for fruit and vegetable crops. A detailed breakdown of each category is presented in following tables.

Table 5. Livestock meat and product GVP by subcategory.

Livestock Category	GVP
Livestock products - Milk	\$15,256,554
Livestock slaughtered and other disposals - Cattle and calves	\$15,229,686
Livestock slaughtered and other disposals - Poultry	\$7,685,033
Livestock products - Eggs	\$376,698
Livestock slaughtered and other disposals - Sheep and lambs	\$62,374
Livestock slaughtered and other disposals - Pigs	\$25,654
<b>Total Value</b>	<b>\$38,725,382</b>

Table 6. Vegetable GVP by subcategory.

Vegetable Category	GVP
Potatoes - Fresh market and processing	\$2,098,707
All other vegetables	\$750,889
Tomatoes - Fresh Market (outdoor and undercover)	\$42,879
Broccoli	\$6,184
Cabbages	\$4,034
Capsicum - (excluding chillies)	\$3,733
Beans (including French and runner)	\$3,503
Tomatoes - Processing	\$2,968
Lettuces	\$2,527
Brussels sprouts	\$1,482
Pumpkins	\$901
Carrots	\$888
Cauliflowers	\$875
Peas - fresh market	\$325
<b>Total Value</b>	<b>\$2,919,895</b>

Table 7. Grape GVP

Fruit- Grapes Only	GVP
<b>Total Value</b>	<b>\$147,073</b>

Table 8. Fruit GVP by subcategory.

Fruit Category	GVP
Fruit and nuts - Pome fruit - Apples	\$18,826
Fruit and nuts - Other fruit - All other berries	\$12,507
Fruit and nuts - Nuts - All other nuts	\$1,738
Fruit and nuts - Other fruit - Blueberries	\$1,694
Fruit and nuts - Stone fruit - Plums	\$1,087
Fruit and nuts - Pome fruit - Pears (including Nashi)	\$512
Fruit and nuts - Other fruit - Kiwifruit	\$337
<b>Total Value</b>	<b>\$36,700</b>



## 6. Site Considerations and Requirements

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The study undertook an analysis to consider the most viable opportunities for developing a RPH in the Southern Highlands. Whilst the background data review and local consultation already indicated challenges around large scale F2B and standalone F2C models, they were not discounted without first carrying out a high-level site selection evaluation and financial feasibility analysis.

This part of the report outlines the requirements and site considerations for three RPH options. The financial feasibility considerations of each option are then outlined in the following section.

The process of evaluation required consideration of three different produce hub models. The three models varied based on business models which subsequently influenced their relevant built form, site requirements, likely location options and ultimately how this impacted their financial feasibility.

Preliminary investigation of the three produce hub models indicated a need to consider two variants of both Option 2 and Option 3. The three produce hub options considered (noting two sub-options) were:

**1. OPTION 1:**

Physical Produce Hub: Farm to Business (F2B).

Commercial facilities for wholesale processing and distribution (~10,000m<sup>2</sup>)

**2. OPTION 2:**

a. Produce Hub: Farm to Consumer (F2C), full size store (1,000m<sup>2</sup>)

b. Produce Hub: Farm to Consumer (F2C), reduced footprint (300m<sup>2</sup>)

**3. OPTION 3:**

a. Integrated Produce Hub into an existing business: Farm to Consumer (F2C) with new internal build, fit-out, storage and staffing.

b. Integrated Produce Hub into an existing business: Farm to Consumer (F2C) with integration into existing space, shared storage and staffing.

The following factors are considered for each option and provided in detail within this chapter:

- Overview: an introduction to what type of produce hub it is
- Capital and operating requirements: the core infrastructure and ongoing requirements for each produce hub
- Land use and zoning requirements: the likely statutory definition and zoning options siting
- Land acquisition requirements: the availability, optimum location and likely land costs

[Table 9](#) presents a summary of finding comparing the 5 models.

**Note:**

A minimal investment 'online only' RPH was also considered (see [Section 2.2.2](#) for more details on this approach). However, these models still require a degree of embedded infrastructure to be successful and generally rely on either leased facilities or more typically contracted services to carry out the physical handling, consolidation and distribution of the produce. The study identified a clear gap in this respect as there are few existing service providers available and therefore this approach is not considered viable in the bounds of this study.



Table 9. Overview of the financial models behind each of the five RPH options.

Cost Build Up	Option 1 F2B Wholesale	Option 2a F2C 1,000sqm stand alone	Option 2b F2C 300sqm Stand alone	Option 3a F2C Integrated	Option 3b F2C Integrated further
Acquisition	(\$1,639,740.00)	\$(7,918,704.00)	\$(2,375,611.20)	0	0
Site Preparation	(\$1,129,144.00)	\$(472,831.72)	\$(141,849.52)	\$(100,000.00)	\$-
Built Form Costs	(\$17,334,040.00)	\$(9,174,890.00)	\$(4,464,783.00)	\$(2,455,000.00)	\$(75,000.00)
Statutory & Consulting Costs	(\$1,549,633.00)	\$(1,561,571.10)	\$(1,101,109.70)	\$(122,750.00)	\$(122,750.00)
Operating Costs 10 years	(\$22,195,247.66)	\$(8,114,595.33)	\$(8,114,595.33)	\$(1,321,081.93)	\$(781,373.29)
Total cost OPEX & Capex	(\$43,847,804.66)	\$(27,242,592.15)	\$(16,197,948.75)	\$(3,998,831.93)	\$(979,123.29)
Contingency	\$(5,003,204.25)	\$(2,802,323.21)	\$(1,426,935.55)	\$(669,437.50)	\$(49,437.50)
<b>Total</b>	<b>\$(48,851,008.91)</b>	<b>\$(30,044,915.36)</b>	<b>\$(17,624,884.30)</b>	<b>\$(4,668,269.43)</b>	<b>\$(1,028,560.79)</b>
Net Total (less acquisition)	\$(47,211,268.91)	\$(22,126,211.36)	\$(15,249,273.10)	\$(4,668,269.43)	\$(1,028,560.79)
Operating and capex recovery per annum	\$(4,721,126.89)	\$(2,212,621.14)	\$(1,524,927.31)	\$(466,826.94)	\$(102,856.08)
Margin for Profit	\$(1,416,338.07)	\$(663,786.34)	\$(457,478.19)	\$(140,048.08)	\$(30,856.82)
Total pre-produce cost	\$(6,137,464.96)	\$(2,876,407.48)	\$(1,982,405.50)	\$(606,875.03)	\$(133,712.90)
Margin on produce	20%	25%	25%	50%	50%
<b>Revenue Required</b>	<b>\$(30,687,324.79)</b>	<b>\$(11,505,629.90)</b>	<b>\$(7,929,622.01)</b>	<b>\$(1,213,750.05)</b>	<b>\$(267,425.81)</b>



## 6.1. Option 1: Physical RPH Wholesale Focus (F2B)

Option 1 is a physical produce hub, a farm to business operation (F2B) which would deliver an industrial buyer/seller market, value added opportunity for produce (such as fruit to jam) and storage areas. This model includes a wholesale distribution and collection point, possibility for onsite value adding (preserving, canning, etc) as well as significant produce specific storage.

The F2B physical produce hub model would require a significant industrial build, hardstand and logistics facilities. The capital and operating requirements would most likely be considered as 'industrial activities' and as such the zoning needs to be commensurate with this.

### 6.1.1. Capital and Operating Requirements

The F2B RPH option has been derived from benchmarking comparable facilities, stakeholder engagement as well as practical requirements for industrial land uses in NSW. It should be noted that there may be variation to any F2B model, however for the purpose of clear feasibility modelling in the following section of the report, the following requirements have been applied:

- An owned or leased a warehouse with market trading area that functions as a single drop-off point for producers and a pickup point for distributors and commercial buyers.
- A small area for public retail trading.
- Infrastructure to support general F2B activity such as: grading, packing, processing, labelling, dry and cold storage (freezing) areas.
- Staffing and technology to ensure the Hub can meet customers' purchasing standards (such as food safety and quality systems).
- Logistics and distribution support- Many RPH's own or lease trucks that are used to carry out on-farm pickup or for delivery from the Hub to retail stores or institutional foodservice establishments.

Based on a high-level consideration of needs, the physical industrial building requirements to support the above activities have been derived as ~5,000 – 10,000 sqm. Based on this model, the following building requirements would be required as a minimum: and have guided the cost build up using benchmarked inclusive cost rates.

- Low-Bay Warehouse with precast walls
- Ancillary development (substructure, utilities, footings, slab)
- Cold store, packing and freezing area
- Market trading area and retail buyer floor
- Car Park for Class C vehicles
- Car Park with reticulation and drop off bay for heavy vehicles
- 12m heavy duty vehicle supported graded road
- Basic landscaping, screening and water detention areas
- Ancillary development (substructure, utilities, footings, slab)

These requirements have guided the cost build up using benchmarked inclusive cost rates.





### 6.1.2. Zoning and Land Use Requirements

Option 1 is an industrial use with significant ancillary requirements to allow it to operate. As such accommodating it, would mean siting within an industrially zoned land parcel. The defined uses would likely be classified as an ‘industrial activity’ and possibly an ‘industrial retail outlet’ under the Wingecarribee Local Environmental Plan 2010 (Wingecarribee LEP). This is outlined in the Dictionary of the LEP. The definitions from the Wingecarribee LEP are outlined below:

*industrial activity means the manufacturing, production, assembling, altering, formulating, repairing, renovating, ornamenting, finishing, cleaning, washing, dismantling, transforming, processing, recycling, adapting or servicing of, or the research and development of, any goods, substances, food, products or articles for commercial purposes, and includes any storage or transportation associated with any such activity.*

### 6.1.3. Industrial Zoned Land

As per the Wingecarribee LEP, there are three clusters of industrial zoned land which could be suitable for such an activity.

1. A large cluster of 1,117 hectares north of Moss Vale which includes the Southern Highlands Innovation Park (SHIP). There is a mixture of three industrial zones:
  - a. IN1 – General Industrial (900 Ha)
  - b. IN-2 Light Industrial (60 Ha)
  - c. N3 – Heavy Industrial (157 Ha)
2. A cluster of 102 hectares of IN1- General Industrial land in Braemar close to the interchange of the old Hume Highway with the Hume Motorway. There is also a single 0.2 Ha parcel of IN2 – Light Industrial Land.
3. A small cluster of 36 hectares of industrial land zoned IN1 (23 Ha) and IN2 (13 Ha) land on the western side of the railway line at Bowral adjacent to Kiama Street.

A map showing the three clusters is shown on the following page in [Figure 7](#).

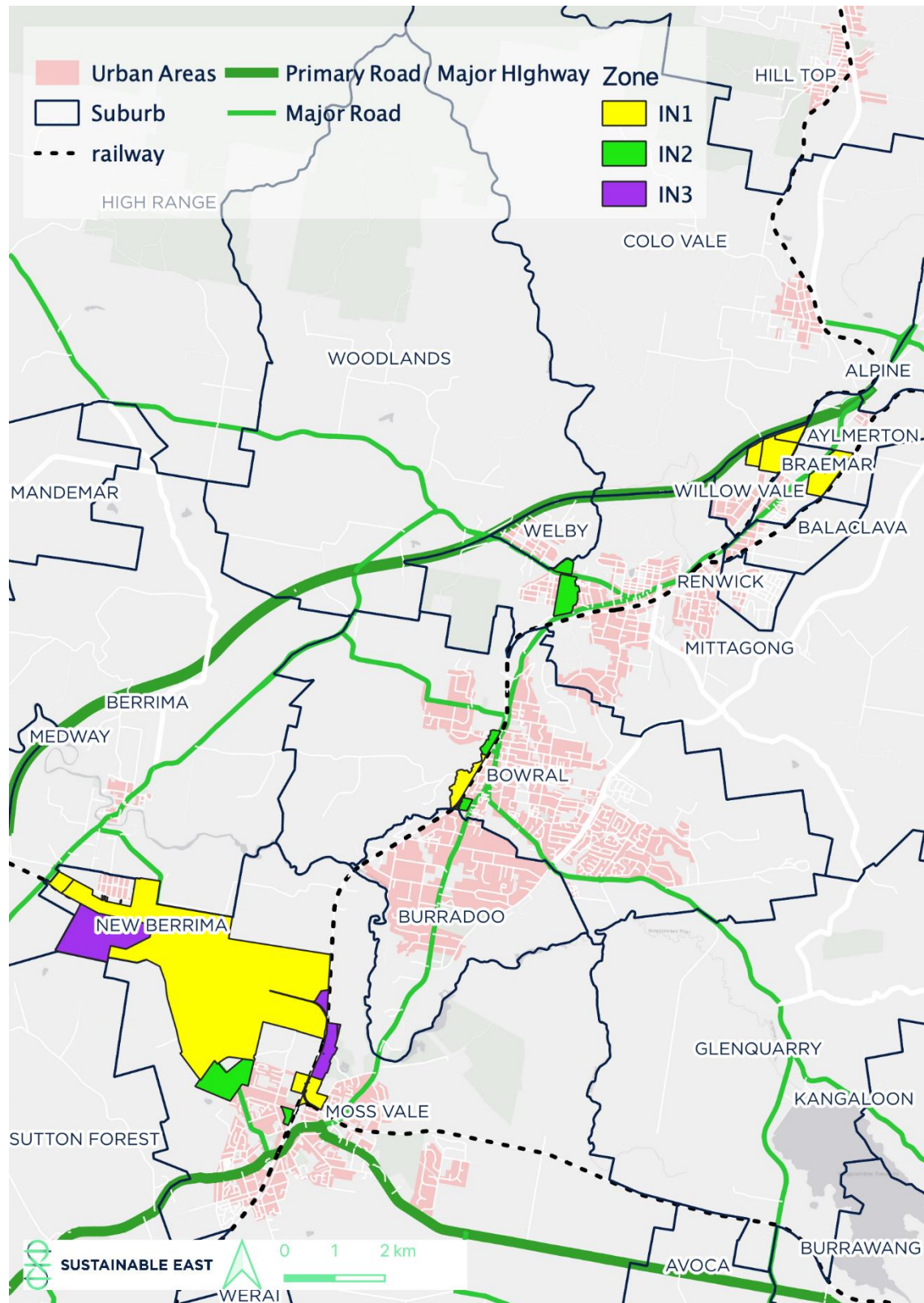


Figure 7. Map showing industrial zoned land suitable for a F2B RPH development.



#### 6.1.4. Land Acquisition Requirements

Based on the requirements for a physical RPH (F2B), a land parcel range of around 15,000 - 20,000sqm would be required. This would be to cover for a 5,000-10,000sqm gross building area (GBA) with a site coverage maximum of around 50%. As part of our feasibility analysis, we have considered generic leasing and acquisition costs. To derive a generic acquisition cost, we have considered current (as of March 2021) a sample of on-the-market sales and rentals to apply a rate (\$/sqm) for acquisition and a rate (\$/sqm per annum) for leasing.

An analysis of industrial land and/or warehousing leasing space averaged out across the market for both Braemar and Moss Vale industrial areas has provided the following rates (March 2021), see [Table 10](#).

*Table 10. Leasing and Sale rates for Wingecarribee Industrial Land based on current market offer. (Source: Core Logic and REA Group 2021)*

Purchase or lease options	Cost (\$/m <sup>2</sup> )
Average leasing (\$/sqm per annum)	\$231.10
Median leasing (\$/sqm per annum)	\$226.90
Average sale price (\$/sqm)	\$3,209
Median sale price (\$/sqm)	\$2,749

Due to the specific nature of an F2B industrial RPH including cold store and marketplace, it is considered likely to be a custom-built facility. It is not implausible that an industrial site could not contain a produce hub, however given the small overall and available quota of industrial land in the Southern Highlands, it is likely that a site would need to be acquired and a new build constructed. As such the financial model considers land purchase as the primary cost line for acquiring a site.



## 6.2. Option 2: Standalone RPH (F2C)

Option 2 is a farm to consumer (F2C) RPH model where produce has a distribution point and can then be directly sold to consumers. This model would see a physical facility act as a sales point from producers to retail buyers with some smaller-scale wholesale buying (restaurants, market traders and others).

Option 2 is contingent on a high exposure location and co-locating with other retail and food stores in an existing retail/commercial area. As a consumer facing produce hub, exposure to both a local and tourist market is highly desirable and ultimately a significant factor in location and built form.

### 6.2.1. Capital and Operating Requirements

For Option 2 as a standalone F2C RPH, the main requirements are similar to fresh produce retail stores. Core requirements for Option 2 include:

- Owned and/or managed retail space in a high exposure location with significant foot traffic
- Cold Store sale, preparation and storage area
- Wholesale buyer area for targeted businesses such as restaurants, hotels or local providers
- Commercial Vehicle (<5t) produce drop off and wholesale buyer area.
- Retail consumer sale floor
- Retail consumer parking
- Small administration areas
- Sales and preparation staff
- Operating, marketing and logistics staff

These requirements have guided the cost build up using benchmarked inclusive cost rates.

#### Site Details

Based on the above requirements, a high-level mock-up design of a possible site has been shown below in [Figure 8](#) and [Figure 9](#). This is based on a generic parcel of land in the Southern Highlands and is not specific to any particular location.





Figure 8. Visual 3d Model of a 1,000m<sup>2</sup> standalone F2C RPH, high traffic consumer fronting.



Figure 9. Overview of a 1,000m<sup>2</sup> standalone F2C RPH, high traffic consumer fronting.



## 6.2.2. Land Zoning Requirements

The strong desirability for a high exposure location means that a facility would almost certainly need to be located in one of the three major town centres of Wingecarribee: Moss Vale, Mittagong or Bowral.

Based on applying the capital and operating requirements and benchmarking them against the Wingecarribee LEP, the premises would likely be defined as a 'retail premises' or possibly 'food and drink premises' as outlined below.

*retail premises means a building or place used for the purpose of selling items by retail, or hiring or displaying items for the purpose of selling them or hiring them out, whether the items are goods or materials (or whether also sold by wholesale)*

*food and drink premises means premises that are used for the preparation and retail sale of food or drink (or both) for immediate consumption on or off the premises, and includes any of the following—*

- a) a restaurant or cafe,
- b) take away food and drink premises,
- c) a pub,
- d) a small bar.

## 6.2.3. Zoned Commercial Land

Based on land use requirements outlined above in the Wingecarribee Local Environmental Plan 2010, there are four zones which generally permit the likely uses for Option 2 and Option 3. These are:

- B5 – Business Development (broad range of uses and mixed options)
- B7 – Business Park (broad range of uses and mixed options)
- B2 – Local Centre (Retail option but limit on the type of distribution and ancillary development).
- B4 – Mixed Use Zone (Retail option but not suggested to be viable land use)

A map of each of the zoned land is outlined below in [Figure 10](#).

Land zoned 'B5 Business Development' or 'B7 Business Park' would likely be the optimum location in terms of zoning and built form flexibility for a F2C RPH. However, these zones are in lower exposure locations with no B5 or B7 zoning in Bowral and the areas in Mittagong and Moss Vale are located away from the main commercial centres.

As such a built form scale which is compatible with a 'high street' retail/commercial area is desirable and still achievable within the zoning structures. There could be possible difficulty in securing a small retail location is that the site needs to allow for reasonable truck access and reticulation as well as storage/packing areas.



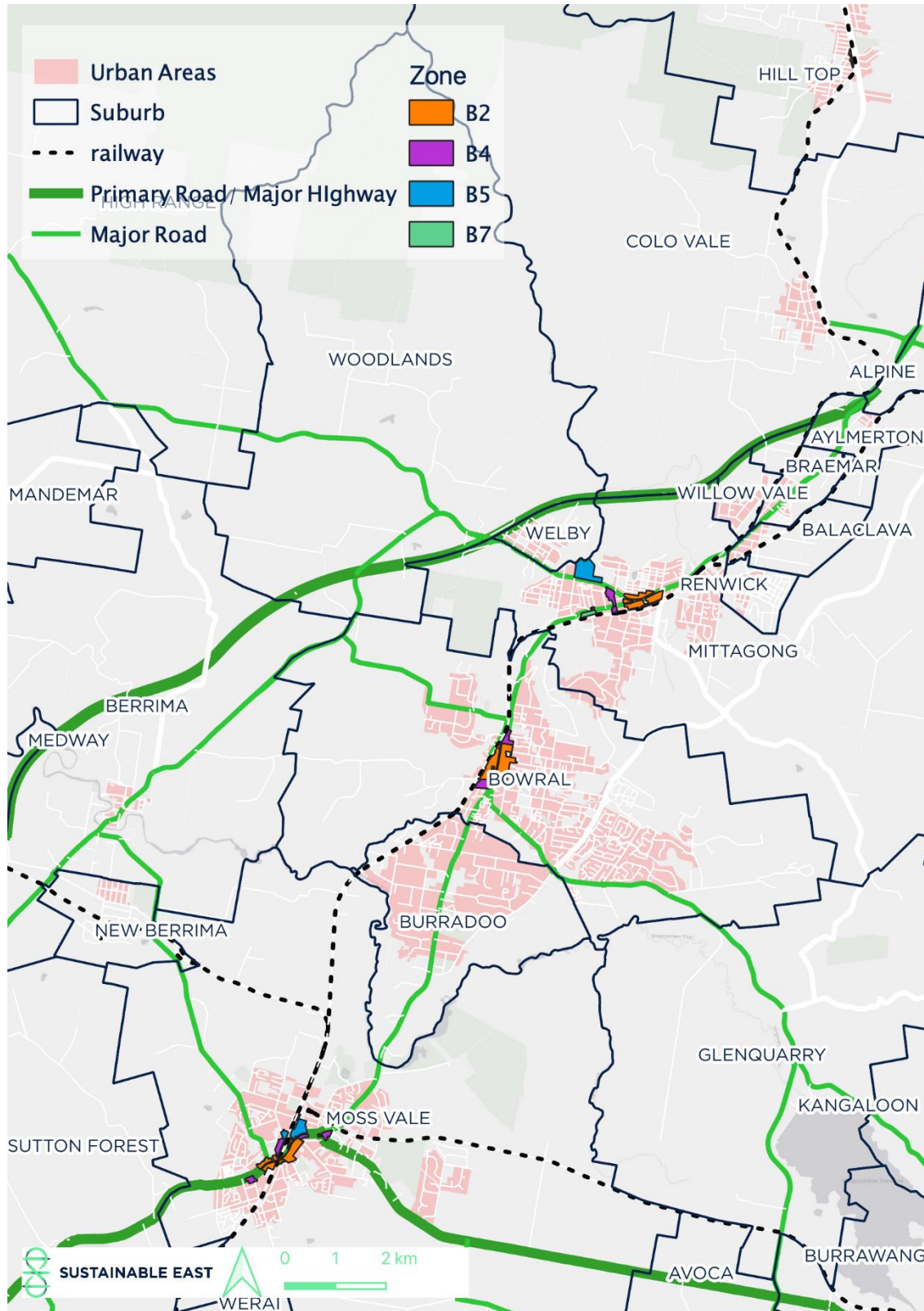


Figure 10. Land suitable for commercial use and development of a F2C RPH.



#### 6.2.4. Land Acquisition Requirements

Option 2a is based on the requirements for a physical F2C RPH with a fully diversified offering. As such, a land parcel range ~1,000sqm in size would be required.

Option 2b follows all the same requirements and siting to Option 2a, however it allows for a smaller site and store size of ~300sqm. A smaller footprint such as this would be more representative of a local greengrocer footprint combined with a small delicatessen or butcher, rather than a fully service retail outlet that the 1,000 sqm example of 2a reflects.

As part of our feasibility analysis, we have considered generic leasing and acquisition costs. To derive an acquisition cost (or residual land value) we have considered current (as of March 2021) a sample of on-the-market sales and rentals to apply a rate (\$/sqm) for sales and a rate (\$/sqm per annum) for leasing. We have focussed on sales in the three major centres of Bowral, Moss Vale and Mittagong. Refer to [Table 11](#) below.

*Table 11. Leasing and Sale rates for commercial and retail land in the three major town centres (Bowral, Mittagong and Moss Vale) zoned land based on current market offerings. (Source: Core Logic and REA Group 2021)*

Purchase or lease options	Cost (\$/m <sup>2</sup> )
Average leasing (\$/sqm per annum)	\$457
Median leasing (\$/sqm per annum)	\$447
Average sale price (\$/sqm)	\$5,251
Median sale price (\$/sqm)	\$4,572

For the standalone F2C model (Option 2) project we have opted for acquisition, given the site would need to be custom built to dimensions with trading and cold store areas. There would likely also be requirements in terms of a produce drop off and buyer pick up.



## 6.3. Option 3: RPH Integrated into an Existing Business (F2C)

Option 3 is an integrated produce hub co-located within an existing store or food retailer with a dedicated regional produce and sales area(s) inside the store. There are two sub-options which have been tested for this scenario.

- Option 3a – a larger scale integration into a larger food retailer with new internal built, fit-out and storage with internally managed staffing.
- Option 3b – a smaller scale integration into a large or small food retailer with dedicated regional produce hub area(s) and shared building resources, staffing and storage.

The variation in the sub-options comes down to a model of operating and financing a storage hub as well as costs and revenues. Option 3a would endure higher costs, while also potentially benefiting from greater revenue. Option 3b would be lower cost to build and operate, however would likely have to pay a 'leasing cost' for integration based on revenue.

### 6.3.1. Capital and Operating Requirements

For Option 3a the primary capital and operating requirements would be:

- Internal build and fit-out of 'produce hub area'
- Decampment and relocation of existing uses
- Cold Store, plant and machinery
- Staffing and operating

For Option 3b the only primary capital and operating costs would be

- Internal fixtures and fittings for dedicated produce hub area(s)
- Part time management of operations between producers and the allocated food retailer

### 6.3.2. Zoning, Acquisition and Location

As Option 3 is an integration with an existing retailer, these requirements do not impact the operations. It would just require general compliance with planning and building requirements for any modifications to the external or internal structures.

## 6.4. Summary

The three options for the RPH differ significantly in operation, build and cost as well as location options. To cover for this diversity of options, Option 2 and 3 both have sub-options to consider a larger and smaller scale variant of each option.

The basic requirements of each option (and sub-option) are used to inform the detailed commercial and financial considerations in the next section of this report.



## 7. Detailed Commercial and Financial Considerations

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The commercial and financial considerations detail the financial feasibility and revenue requirements of each of the three produce hub options (and sub-options). This section considers both return on investment metrics (financial considerations) as well as whether there is a market to support such a development (commercial considerations).

To consider the commerciality of each option, a financial feasibility model has been run for each option, including sub-options 2b and 3b.

### 7.1. Feasibility Modelling Approach and Structure

#### 7.1.1. Modelling Approach

**In summary, our approach to feasibility modelling has been to compare Options based on required annual sales revenue as the key feasibility indicator.**

The purpose of running a feasibility model is to understand the capital and operating costs and how this reflects requisite revenue so a preferred model can be chosen. For the development of a possible RPH, the projected revenue is not able to be accurately estimated as an input, so a return on investment (ROI) model is not considered an appropriate measure of feasibility. As such, modelling the financial feasibility of a RPH is based on the required revenue of sales per annum taking into account margin of produce (noting that the likely margin for each option varies based on the business model used and is described in detail within this section).

Applying this approach, the total annual revenue requirements for each RPH option can be compared. This projection can then be considered against current and future likely value of production volumes. The comparison against projection volumes helps to further analyse likely commercial viability.

#### 7.1.2. Feasibility Model and Structure Details

The financial feasibility of each option has been run through VisualFin™ feasibility model. This is a custom development model to test different development modules on any site in the world<sup>1</sup>.

##### 7.1.2.1. Limitations & caveat on model costings

Please note the following limitations and caveats on the feasibility modelling:

- The feasibility model runs, including inputs for this project, have been run at a generic level for comparison and testing purposes.
- Cost data is based on \$/sqm estimations and not itemised or detailed pricing, unless otherwise stated
- The model inputs cover what are considered to be minimum requirements and do not cover all likely required inputs.
- Some of the cost inputs for design costs + fees are broad estimates where accurate information is either not available or at a level of detail to granular for this broad-based feasibility modelling.

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<sup>1</sup> [www.visualfin.app](http://www.visualfin.app)



### 7.1.3. Model Structure:

The feasibility model structure works on a critical path of inputs for capital expenditure costs (CAPEX), operating costs (OPEX) and Revenue. The model works by modelling a series of inputs (cashflows) over a certain period of time. An applied discount rate (10% for this project) models the impact of time on costs and revenues.

Each phase of the critical path allows for unlimited cash flow inputs which can either be an expense (cost), income (revenue) or finance input (loan or equity). The critical path and inputs to the model is structured as below:

1. **Acquisition:** The total costs of acquiring land for development.
2. **Infrastructure Costs:** The total infrastructure requirements around development including demolition, site preparation, excavation, utility connections and other ancillary costs.
3. **Built Form:** The build cost of the produce hub, including features such as cold storage and internal fixtures. This is inclusive of materials, labour and building services.
4. **Design Costs + Fees:** Design and professional costs as well as statutory costs
5. **Operating Costs:** Operating and maintenance, staff costs as well as any other factored costs
6. **Project Appraisal:** The calculation to derive requisite revenue

### 7.1.4. Model Assumptions

- Each model option is assumed with a 144 month time period (12 years) to be consistent in evaluation. This is broken into two phases; 24 months (2 years) for concept, design and development and 120 months (10 years) for operations.
- The inputs for the model for each Option are based on the requirements outlined in Section 6 of this report.
- As five different scenarios have been modelled, General benchmark costs have been applied to the built form and assumed ancillary requirements. This covers all building aspects, including building services at a \$/sqm rate. These costs have been sourced from *Rawlinsons Australian Construction Handbook 2020*.
- The key performance indicator (KPI) in this model to consider feasibility is requisite per annum revenue from month 25 to month 144.



## 7.2. Option 1: Produce Hub Model 1 (F2B)

Option 1 is the industrial scale F2B RPH model.

In addition to the general feasibility modelling assumptions, the key modelling assumptions for Option 1 (F2B) are outlined below:

- The draft model has been run in VisualFin™ with inputs for certain building requirements sourced from Giraffe Technology™.
- Built form inputs have come from a variety of sources with core construction costs generally being sourced from the *Rawlinsons Australian Construction Handbook 2020*.
- A proxy site at 21 Douglas Road Moss Vale has been used for Option 1
  - Lot 21 of DP 812725
  - The land parcel area is 81,269sqm (8.13 ha)
  - The site is zoned IN1 General Industrial and adjacent to other industrial uses
  - The capital phase has been estimated at 24 months from inception to occupation certificate
  - The operating period has been modelled over 10 years (120 months) after the occupation certificate.
- Costs are based on the design and approximate infrastructure costs and subject to change as the project continues.
- Generic construction costs have been applied at a \$/sqm unless otherwise stated. These costs include full building costs and building services, excluding certain custom, niche or particular components.
- Time periods for project cycles, including construction and delivery are estimations and subject to change based on final option evaluation.
- The total time period of assessment is 144 months (12 years). This allows for 2 years of development and 10 years of operation.
- The project development period is based on purchase by month 6 after due diligence, construction commencing in month 12 and being finalised in month 24.
- 20% margin on produce sold.
- All values are in 2021 financial year dollars. Future costs and revenues have been discounted by 10%.

Detail on the build-up of costs for each component is outlined below in the following sections.





## 7.2.1. Acquisition

- Acquisition has been considered a requirement due to the bespoke nature of the development and that it is unlikely an existing industrial site would be able to be converted to use as an F2B facility.
- A rate of \$20/sqm has been applied. This is based on serviced land sales in the area and benchmarked off the sale of 64-76 Douglas Road (in very close proximity) with similar characteristics in December 2020<sup>2</sup>
- A total site area of 81,869sqm x \$20, generates a total acquisition cost of **\$1.63m**
- The acquisition is expected to occur in months 4-6 with 20% payment in month 4 and 80% payment in month 6. This is based on standard due-diligence and payment periods.

Table 12. Calculated land acquisition cost for F2B RPH.

Cost Factor	Month	Description	Total	Source
Land Purchase	4-6*	REA Group	<b>\$(1,639,740)</b>	REA Group Sales by Zone (March 2021)

## 7.2.2. Infrastructure

- The site is an assumed greenfield industrial site based on current market offerings in the Moss Vale IN1 zoned areas.
- All infrastructure values are approximate based on best available information and site details. The timing is based on a 2-year development period assuming infrastructure development in months 12-18.

Table 13. Infrastructure development costs for F2B RPH.

Cost Factor	Month	Description	Total	Source
Site preparation	12-14	Clear site of medium vegetation	\$(22,000.00)	Rawlinsons page 211 (\$0.55/sqm)
Excavation	12-14	Excavate to remove vegetable soil and level on site	\$(74,000.00)	Rawlinsons page 211 (\$1.85/sqm)
Landscaping	18-24	Topsoil planting and small trees	\$(75,000.00)	Based on comparable projects at \$50/sqm
Consumer/Customer Carpark	12-18	At-grade with minimal site works	\$(278,960.00)	Rawlinsons page 35 10.2 (\$88/sqm)
Vehicle reticulation hardstand and truck bays	12-18	Bitumen sealed	\$(679,184.00)	Rawlinsons page 35 10.2 (\$88/sqm)
<b>Total</b>			<b>\$(1,129,144.00)</b>	

\* 64 Douglas road sale



### 7.2.3. Built Form

- The main F2B building is a high bay warehouse with pre-cast concrete walls to allow for appropriate storage and climate control.
- Significant cool room infrastructure to be developed.
- Assumed construction main works period of 12 months for the building with 6 months concurrent for supporting infrastructure.

Table 14. Built form Cost for F2B RPH.

Cost Factor	Month	Description	Total	Source
Main Building	12-24	High bay warehouse with concrete pre-cast walls	\$(8,701,440.00)	Rawlinsons page 29 8.1.1.4 (\$820/sqm)
Cold Store	12-14	40% cold store cover	\$(6,160,000.00)	Rawlinsons page 31 8.3.1 (\$1,540/sqm)
Office, toilets and amenities	18-24	100sqm office space	\$(20,000.00)	Rawlinsons 8.3.1.2 page 31 (\$2,000/sqm)
Entry Road	18-24	Entry road into the site to 12m width for heavy vehicles	\$(452,600.00)	Rawlinsons 8.3.2.2 (\$200/sqm)
Plant	24	Internal logistics and processing	\$(2,000,000.00)	Estimate based on requirements
<b>Total</b>			<b>\$(17,334,040.00)</b>	

**7.2.4. Design Cost and Fees**

- The design costs and fees have been benchmarked from comparable industrial projects using averages as this is a high-level options comparison at this stage.
- Fees are a range of derived totals and fixed price services for different aspects.
- Detailed costs would be applied for a preferred option.

*Table 15. Design costs and fees for F2B RPH.*

Cost Factor	Month	Description	Total	Source / Justification:
Project Management	0-26	5% from month 1-26 (operations)	\$(435,072)	Project standards
Design	0-3	\$100,000 fixed fee	\$(100,000)	Project standards
Feasibility Study	0-3	\$50,000 fixed fee	\$(50,000)	Project standards
Due Diligence	0-3	\$50,000 fixed fee	\$(50,000)	Project standards
Engineering	0-8	5% of construction costs months 0-20	\$(435,072)	Project standards
Planning Services	0-18	\$100,000 fixed fee	\$(100,000)	Project standards
Statutory Planning Fees	3-24	\$100,000 fixed fee	\$(100,000)	Estimate on project type
Stamp Duty	6	Calculated at \$75,205.00	\$(75,205)	NSW Dutiable Estimate based on estimated acquisition
Infrastructure contributions	27	Calculated at 204,284	\$(204,284)	Approximate local and State contribution requirements.
<b>Total</b>			<b>\$(1,549,633.00)</b>	

**7.2.5. Operating Costs**

- The operating costs have been estimated based on an approximate running cost for 10 years based on assumptions made about the project.
- The timing for operations in the feasibility model is over 120 months (10-year period)
- Staff and O/M costs have been based on approximate requirements to maintain a basic F2B produce hub. This has been partially informed by other produce hubs, comparable operations for energy, maintenance and other factors.

*Table 16. Operating Cost for F2B RPH.*

Cost Factor	Month	Description	Total
Staff Costs	25-144	Based on 10 X FTE at \$70,000 per annum increasing at 3% CPI	\$(9,808,080.56)
Operating Costs	25-144	867k per annum over 10 years (energy, O&M, water)	\$(12,387,167.10)
<b>Total</b>			<b>\$(22,195,247.66)</b>



### 7.2.6. Summary and Requirements

The summary requirements show the total cost summary as well as the forecast revenue requirement. This assumes:

- 25% project contingency on design and construction as well as operations
- 20% margin on resale of produce as an industrial supplier. A 20% margin reflects typical rates applied to a wholesale marketplace and aligns well with existing RPH located in other regions (such as Rysin and Dunning, 2016). We do note however those margins can be as high as 50% in some examples, particularly where a high degree of value adding occurs.

Based on our calculations the total requirement would be **\$30.687M** of sales per annum for the F2B RPH option to be viable (see [Table 17](#)).

Table 17. Total cost summary and revenue requirement for F2B RPH.

Cost Build Up	Value
Acquisition	\$(1,639,740.00)
Site Preparation	\$(1,129,144.00)
Built Form Costs	\$(17,334,040.00)
Statutory & Consulting Costs	\$(1,549,633.00)
Operating Costs 10 years	\$(22,195,247.66)
Total cost OPEX & Capex	\$(43,847,804.66)
Contingency	\$(5,003,204.25)
<b>Total</b>	<b>\$(48,851,008.91)</b>
Net Total (less acquisition)	\$(47,211,268.91)
Operating and capex recovery per annum	\$(4,721,126.89)
Margin for Profit	\$(1,416,338.07)
Total pre-produce cost	\$(6,137,464.96)
Margin on produce	20%
<b>Revenue Required</b>	<b>\$(30,687,324.79)</b>



### 7.3. Option 2: Produce Hub Model 2A and 2B (F2C)

Option 2 is a standalone F2C retail RPH. This model requires extensive capital and operational funding, but also would receive 100% of revenues and not have to pay a service fee on sales (which is how it differs from Option 3).

As there is significant variation based on size, Option 2 has been split into two options:

- Option 2a (1,000sqm) stand-alone site
- Option 2b (300sqm) stand-alone site

The majority of costs are scaled pro-rata commensurate to built form site, however some costs have been endured by both as they are not impacted by scale.

#### Key model assumptions:

- The draft model has been run in VisualFin™ with inputs reflecting a retail development as outlined in section 6 of this report.
- A proxy site on an existing car park has been used near the corner of Merrigang Street and Bong Street in Bowral. This is just a proxy to reflect values of a high exposure location but referenced for a realistic site. The details of the site are below:
  - Lot 3 of DP 604391 held on one title
  - The total land parcel area is 2,402 sqm
  - The site is entirely zoned B2 Local Centre
- The project development phase has been estimated at 24 months from inception to occupation certificate
- The operating period has been modelled over 10 years (120 months) after the occupation certificate.
- Costs are based on the design and approximate infrastructure costs and subject to change as the project continues.
- Broad based costs have been applied at a \$/sqm rate and include building services unless otherwise stated. This is for a high-level option to consider against other options.
- Time periods are estimations and subject to change.
- 25% margin on produce sold.
- All values are in 2021 financial year dollars. Future costs and revenues have been discounted by 10%.

#### 7.3.1. Acquisition

- Acquisition has been considered a requirement due to the bespoke nature of the development.
- A rate of \$4,572/sqm has been applied. This is based on comparable median sale values for high value commercial land in Bowral.
- A total site area of 1,500sqm x \$4,572, generates a total acquisition cost of (\$7,918,704)
- The acquisition is expected to occur in months 4-6 with 20% payment in month 4 and 80% payment in month

Table 18. Land acquisition cost for F2C RPH.

Cost Factor	Month	Description	Total	Source:
Land Purchase	4-6*	Retail land (B2 Zone) in high street location	<b>\$(7,918,704)</b>	REA Group

\*Source: Sale values from the year to March 2021 for retail in Bowral



### 7.3.2. Infrastructure

- Basic Infrastructure has been considered for existing site services and need for basic site preparation, excavation, and dewatering. There may be additional requirements, but it would be site dependent and known upon further investigation.
- The following infrastructure is based on the development of an existing At-Grade Carpark.

*Table 19. Infrastructure development costs for standalone F2C RPH.*

Cost Factor	Month	Description	Total	Source
Preliminaries	12-14	Preliminary construction requirements	\$(348,000.00)	Rawlinsons (Page 211)
Excavation	12-14	Break-up bitumen with base course under	\$(6,375.72)	Rawlinsons (Page 211)
Dewatering	18-24	Topsoil planting and small trees	\$(118,456.00)	Rawlinsons (Page 212)
<b>Total</b>			<b>(\$472,831.72)</b>	

### 7.3.3. Built Form

- Based on a standalone wholesale and consumer retail outlet in the style of surrounding retail facilities.
- Benchmarked for cost as a 'Regional Food Department Store' with parking, finishes and landscaping factored in as part of the cost,
- Parking is based on LEP requirements based on retail size and is assumed as basement parking.

*Table 20. Built form costs for standalone F2C RPH.*

Cost Factor	Month	Description	Total	Source
Main Building	12-24	Regional standalone store fit-out 14.2.1.1	(\$4,416,600)	Rawlinsons 14.2.1.1 page 45
Cold & Freezer Room	12-14	Additional cold and freezer store	(\$91,250)	Rawlinsons 14.1.2.2 (page 46)
Trading area fitout	18-24	Trading area fit out	(\$1,148,160)	Rawlinsons 14.1.3.3 (page 46)
Parking	18-24	Single level basement car parking	(\$706,200)	Rawlinsons 10.2.1.1 Page 35)
Finishes	20-24	Shop fittings and finishes	(\$1,472,000)	Based on approximate comparable facilities
Construction Contingency	0-26	30% of main building works	(\$1,324,980)	Project benchmarks
Landscaping	20-24	Deep soil and screening	(\$15,700)	Rawlinsons 11.13 (page 40)
<b>Total</b>			<b>(\$9,174,890.00)</b>	



**7.3.4. Design Costs and Fees**

- The design costs and fees have been benchmarked from comparable retail and commercial products
- Fees are a range of derived totals and fixed price services for a high-level options testing report.
- Timing is based on general studies 0-9 months with assumed 3-month planning approval period and main construction works to commence month 12
- 1 year construction period months 12-24

*Table 21. Design cost and fees for standalone F2C RPH.*

Cost Factor	Month	Description	Total	Source
Project Management	0-25	5% of main building works through development period	(\$220,830.10)	Project benchmark
Planning Design	0-3	\$40,000 fixed fee	(\$40,000.00)	Project benchmark
Feasibility Study	0-3	\$50,000 fixed fee	(\$50,000.00)	Project benchmark
Urban Design	0-9	\$100,000 fixed fee	(\$100,000.00)	Project benchmark
Engineering	0-14	\$200,000 fixed fee	(\$200,000.00)	Project benchmark
Technical Studies	0-14	\$200,000 fixed fee	(\$200,000.00)	Project benchmark
Transfer Duty	9	\$401,869 based on derived acquisition	(\$401,869.00)	Project benchmark
Statutory Fees	0-22	\$100,000 fixed fee	(\$100,000.00)	Project benchmark
Contributions	30	\$249,000 derived State and Local	(\$248,872.00)	Project benchmark
<b>Total</b>			<b>(\$1,561,571.10)</b>	



### 7.3.5. Operating Costs

- Based over a 120 month (10-year period) from month 25 to month 144
- Staff and operating costs have been benchmarked or estimated based on the scale of the building.

Table 22. Operating cost for standalone F2C RPH.

Cost Factor	Month	Description	Total	Source
Staff Costs	25-144	Based on staff costs of \$250,000 per annum (4 FTE) with on-costs	(\$5,717,329.96)	Project benchmark
Operating Costs	25-144	Benchmarked at \$750,000 in year 1 for leasing, plant, machinery and servicing	(\$4,541,264.10)	Project benchmark
<b>Total</b>			<b>(\$8,114,595.33)</b>	



### 7.3.6. Summary and Requirements

The summary requirements show the total cost summary (the pro-rata costs for Option 2b is outlined in the [Table 23](#)) as well as the forecast revenue requirement. This assumes:

- 25% project contingency on design and construction as well as operations
- 25% margin on resale of produce as retail supplier operating in a cooperative function.  
Typical margins on retail sales for standard commercial fresh produce are ~50%, however, the premise behind developing a RPH is the nature by which greater returns are generated for farmers, and retail share of profits is reduced. This process effectively allows for a higher farm gate price point, attracting local producers to preferentially support the store. Without a decreased margin there is little incentive for producers to service such an outlet.
- Our research found that whilst a positive outcome for the community from a connection to food point of view, these models typically are not viable without ongoing support in the form of grants or donations.

Based on our calculations the total requirement would be **\$11.50M** of sales per annum for Option 2a and **\$7.92M** sales per annum for Option 2b is required to be viable (see [Table 23](#)).

Table 23. Total cost summary and revenue requirement for F2C RPH.

Cost Build Up	Option 2a	Option 2b
	F2C 1,000sqm standalone	F2C 300sqm Standalone
Acquisition	\$(7,918,704.00)	\$(2,375,611.20)
Site Preparation	\$(472,831.72)	\$(141,849.52)
Built Form Costs	\$(9,174,890.00)	\$(4,464,783.00)
Statutory & Consulting Costs	\$(1,561,571.10)	\$(1,101,109.70)
Operating Costs 10 years	\$(8,114,595.33)	\$(8,114,595.33)
Total cost OPEX & Capex	\$(27,242,592.15)	\$(16,197,948.75)
Contingency	\$(2,802,323.21)	\$(1,426,935.55)
<b>Total</b>	<b>\$(30,044,915.36)</b>	<b>\$(17,624,884.30)</b>
Net Total (less acquisition)	\$(22,126,211.36)	\$(15,249,273.10)
Operating and capex recovery per annum	\$(2,212,621.14)	\$(1,524,927.31)
Margin for Profit	\$663,786.34)	\$(457,478.19)
Total pre-produce cost	\$(2,876,407.48)	\$(1,982,405.50)
Margin on produce	25%	25%
<b>Revenue Required</b>	<b>\$(11,505,629.90)</b>	<b>\$(7,929,622.01)</b>



## 7.4. Option 3: Produce Hub Model 3A and 3B (F2C)

Produce models 3a and 3b are an integration model where the produce hub is embedded into an existing retail business. The model is separated into two options:

**1. Option 3a:**

Is essentially an add-on into an existing store but would require a new internal build and payment for use as well as self-funded staffing and operating costs.

**2. Option 3B:**

Is a fully embedded option where costs such as plant, cold room, staff and others are shared with the existing retail facility.

The basic design and building costs have been amended from models 2b and 2a with differences where required.

**Key model assumptions:**

- The draft model has been run in VisualFin™ with inputs reflecting a retail development as outlined in section 6 of this report.
- Integration into an existing store has been modelled with no particular store, just a standard food retailer with a size range of ~300sqm to ~2,000sqm.
- The project development phase has been estimated at 3 months for both options to account for retail planning and any internal fitouts required.
- The operating period has been modelled over 10 years (120 months) after the occupation (assumed as month 3).
- A 5% Project management fee from month 1-25 to has been included to cover development and administrative costs for an integration.
- Costs are based on the design and approximate infrastructure costs and subject to change as the project continues.
- Broad based costs have been applied at a \$/sqm rate and include building services unless otherwise stated. This is for a high-level option to consider against other options.
- Time periods are estimations and subject to change.
- A leasing fee for 3b of \$550/sqm per annum for 100sqm escalating at 10% per annum is factored in. This is based on a payment slightly above market rates (\$447/sqm per annum).
- All values are in 2021 financial year dollars. Future costs and revenues have been discounted by 10%.

### 7.4.1. Acquisition

Acquisition is not required for option 3a or 3b.

### 7.4.2. Infrastructure

Basic integration infrastructure has been applied for option 3a with very minimal infrastructure for 3b.

*Table 24. Infrastructure development costs for standalone F2C RPH.*

Cost Factor	Month	Description	Total	Source
Integration	0-3	Preliminary construction requirements	\$(100,000)	Industry consultation
<b>Total</b>			<b>\$(100,000)</b>	



## 7.4.3. Built Form

Cold store, internal fixtures custom area has been applied for option 3a. Only internal fixtures have been applied for option 3b.

Table 25. Built form costs for standalone F2C RPH.

Cost Factor	Month	Description	Total	Source
Cold Store	0-3	Additional cold and freezer store	\$(2,330,000)	Industry consultation
Existing Decampment	0-3	Store Reconfiguration	\$(50,000)	Industry consultation
Custom Fit out	0-3	Trading area fit out	\$(75,000)	Industry consultation
<b>Total</b>			<b>\$(2,455,000)</b>	

## 7.4.4. Design Costs and fees

- The design costs and fees have been benchmarked from comparable retail and commercial products
- Due to the minor scale and internal fit-out, all costs are covered under a 5% project management cost.

Table 26. Design cost and fees for standalone F2C RPH.

Cost Factor	Month	Description	Total	Source
Project Management	0-3	5% of main building works through development period to cover all necessary steps	\$(122,750)	Project benchmark
<b>Total</b>			<b>\$(122,750)</b>	

## 7.4.5. Operating Costs

- Based over a 120 month (10-year period) from month 3 to month 123
- Staff and operating costs have been benchmarked or estimated based on the scale of the integrated facility,

Table 27. Operating cost for standalone F2C RPH.

Cost Factor	Month	Description	Total	Source
Staff Costs (option 3.a)	3-123	Based on staff costs of \$165000 per annum (2 FTE) with on-costs	\$(1,013,853.57)	Project benchmark
Operating Costs (option 3.a)	3-123	Benchmarked at \$50,000 per annum	(\$307,228.36)	Project benchmark
Leasing cost (retail floor density (option 3.b))	0-123	Benchmarked at \$550/sqm per annum for leasing cost of 100sqm NFA space	(\$781,373.29)	Industry consultation
<b>Total</b>			<b>(\$1,321,081.93)</b>	



### 7.4.6. Summary and Requirements

The summary requirements show total cost summary as well as the forecast revenue requirement. The alternate costs and revenue requirements for option 3b are also outlined.

- While Option 3b on a revenue basis is a more desirable option (see below in [Table 28](#)), the leasing cost could change the requirements which would need to be market tested for veracity.
- 50% margin on resale of produce as retail supplier operating in conventional manner. This aligns with current industry practices in Australia and is supported by literature reviews and research.
- The increased margin (50%) when compared to Option 2 (25%- see [Section 7.3.6](#)) means that there is a reduced financial incentive for local producers to support the integrated store, unless they are afforded a significant reduction in post-harvest costs (such as logistics or removal of the ‘middle man’) or a price premium can be placed on regional products, a value that likely requires brand development (see [Section 8](#)).

Based on our calculations the total requirement would be **\$1.213M** of sales per annum for Option 3a and **\$0.267M** sales per annum for Option 3b is required to be viable ([Table 28](#)).

Table 28. Total cost summary and revenue requirement for an integrated F2C RPH.

Cost Build UP	Option 3a	Option 3b
	F2C Integrated	F2C integrated further
Acquisition	\$ -	\$ -
Site Preparation	\$(100,000.00)	\$ -
Built Form Costs	\$(2,455,000.00)	\$(75,000.00)
Statutory & Consulting Costs	\$ (122,750.00)	\$(122,750.00)
Operating Costs 10 years	\$(1,321,081.93)	\$(781,373.29)
Total cost Opex & Capex	\$(3,998,831.93)	\$(979,123.29)
Contingency	\$(669,437.50)	\$(49,437.50)
<b>Total</b>	<b>\$(4,668,269.43)</b>	<b>\$(1,028,560.79)</b>
Net Total (less acquisition)	\$(4,668,269.43)	\$(1,028,560.79)
Operating and capex recovery per annum	\$(466,826.94)	\$(102,856.08)
Margin for Profit	\$(140,048.08)	\$(30,856.82)
Total pre-produce cost	\$(606,875.03)	\$(133,712.90)
Margin on produce	50%	50%
<b>Revenue Required</b>	<b>\$(1,213,750.05)</b>	<b>\$(267,425.81)</b>





## 7.5. Feasibility Summary

In summary, there are significant differences regarding the required revenue generation of each option based on how they have been modelled. The comparison of options is summarised below in [Table 29](#). The critical factor is to consider how the derived revenue requirement could match sales production and volumes currently produced in the region, and what capture of this market could a RPH achieve.

*Table 29. Summary financial feasibility of each option*

Option	Total Capex and Opex Cost (inc contingency)	Margin on produce	Total Revenue Requirement per annum
1	\$ (48,851,008.90)	20%	\$ (30,687,324.79)
2.a	\$ (30,044,915.36)	25%	\$(11,505,629.90)
2.b	\$ (17,624,884.30)	25%	\$(7,929,622.01)
3.a	\$ (4,668,269.43)	50%	\$ (1,213,750.05)
3.b	\$ (861,644.21)	50%	\$(267,425.81)



## 8. Branding Considerations

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In addition to investigating the feasibility of developing a Produce Hub in the Southern Highlands, the project also sought to consider the rationale of developing a Destination Brand and its application to fresh produce. It is important to note that it is not within the scope of this work to develop the brand, but rather provide an overview of the opportunities that may be present and also consider if there is a desire from the community and local producers for this process to be undertaken.

A well thought out and executed Destination Brand Strategy would bring significant benefits to the entire region, with the overall outcome much greater than the sum of the individual parts working independently.

In the process of considering the development of council's Destination Southern Highlands Brand, the most important aspect to recognise the fact that the Southern Highlands Destination Brand already exists and continues to be developed and refreshed in keeping with the region's positioning and target markets.

Every weekend Sydneysiders (and visitors from further afield, including international guests) flock to the Southern Highlands to enjoy the green hillsides, seasonal climate, great food and wine and pristine wilderness areas. The region is already well positioned, and any form of brand development should first leverage the existing value (not diminish it) and build on this.

We are not starting with a blank canvas with an uphill journey, but rather an established region with a wonderful brand that has the opportunity for continued growth and development. If this brand can infer benefits to service and products (such as the regional fresh produce) then further investment should occur to create this value. The brand should not remain stagnant, but rather evolve to meet the underlying needs of the community and region as the world moves forwards.

This overall brand should represent what is great about the Southern Highlands and leverage the learnings and success of other regional brands in Australia and around the world.

### 8.1. Continued Development of Brand Southern Highlands

The Wingecarribee 2031 Strategic Plan describes an area with thriving primary industries, founded on a diverse and sustainable economy that will continue to attract (and retain) people to the region. However, The Southern Highlands Destination Strategy 2020-2030 concludes that intervention is required to achieve a future that protects its character and achieve these goals:

*“By 2041, based on the current trajectory, half of the population is expected to be over the age of 55; which would have detrimental impacts on schools, health and community infrastructure, housing, industry and employment. However, 2041 is a long way off and we have time to adjust our course, to move towards a more desirable future. In order to achieve this, we must start today. We must start doing things differently.”*

As the region embarks on a comprehensive ten-year plan with pathways to achieve this, a destination review with possible re-branding/brand evolution will help to create a sense of belonging and purpose and cohesion of the community to buy into these changes. The benefits of the brand should also be exploited by products and services produced in the region, such as fresh produce.

This approach is further supported by the finding in the Have Your Say Survey ([See Section 4.3](#)), with a key finding identifying that 75% of respondents want to strengthen the Southern Highlands Brand and only 6% DON'T think it is a good idea to develop of a Southern Highlands Brand for produce.

Whilst the character, attributes and competitive advantages of the Southern Highlands are important aspects of the brand, realising what you are trying to change and trying to achieve is also crucial in its continued development and evolution. The brand development strategy should therefore help meet and achieve these goals.



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The brand includes components of creativity, research, strategy development, and long-term investment. A destination brand reflects the spirit or personality of a community. The well-defined and executed destination brand instils a sense of community pride, increases community cohesion, attracts business investment and improves economic performance.

With reference to a brand adding value and increased margin to the region's agricultural products, building equity in a destination brand allows the transfer of that equity to its products or services. Building on a destination that resonates in the hearts and minds of your target audience offers transferrable value. Extending the distinct, aspirational, future-centric and evocative features with depth around the Highlands' strategic aspirations to ensure brand cut-through.

Destination and regional brands have succeeded all over the world, enabling product premiumisation and driving increased consumer demand for products and tourism. At the pinnacle of successful examples of regional food brands one can look to examples such as Champagne in France, the Barossa Valley in South Australia, King Island (dairy and beef), New Zealand dairy and Coffin Bay Oysters to name just a few.

Whilst the benefits of any destination brand can be vast and numerous, the two primary benefits are:

- 1. Destination Based Benefit:**

It will drive visitation to the area (from local, state-wide, potentially nation-wide or internationally) depending on how far you seek to push the brand. Likewise, there will be an uptick in business and jobs in the area (all things aligning to the vision defined in the Southern Highlands Destination Strategy). Tourism and hospitality is a sector undergoing immense disruption especially with Covid. There is an opportunity to leverage this shift in the market with more localised destination brand building.

- 2. Product or Service Based Value:**

The destination brand (with a clear and compelling, emotive meaning) will do the heavy lifting across marketing initiatives. The position and values attached to the destination can be transferred across to the agriproduct or service its connected to. This should drive significant marketing efficiencies (essentially sharing brand equities).

It is the latter that is of particular relevance to this report when we consider the core benefits and applications of a Destination Brand for the region in respect to local regional produce. In this regard, the overall Destination Brand should be inclusive of the products and services offered in the region. Conversely, a regional Produce Hub could be a contributing factor to the brands underlying value, adding experience to those seeking to visit or live in the region.

## 8.2. Destination Brand Development

The goal should be to first define the narrative and meaning of the destination. As previously stated, a Southern Highlands Brand already exists, and we are looking to grow and exploit the benefits of this existing brand, whilst adding to or adjusting other attributes to future proof the brand and meet the needs of an ever-evolving market. Any adjustments to the existing brand should consider the destination in respect to:

- What is its unique position in the market?
- What are its distinguishing features?
- How do we attach that meaning to the industries and sectors of the region?

This is not a short-term logo exercise but a longer-term strategy that will deliver return and valuable benefits to the community for years to come.

There are great benchmarks internationally of specific product-based brands that have uniquely produced a product like Champagne or Prosecco. Just as France has a Champagne region, North Eastern Italy has a designated Prosecco region. Sparkling wine manufactured using grapes grown outside of this region cannot use the term "Prosecco" on the label. This is to protect the characteristics associated with the Italian Sparkler as Glera grapes grown in this region only vary in flavour, acidity and bouquet within predictable parameters. The branding for this region is about the origin of a singular product based on its history and provenance. This is very different to the multiple attributes of the Highlands.

There are also Premium Products brands e.g., King Island and unique destination brands with different experiences from the rest of the world e.g., the Serengeti or parts of New Zealand or Tasmania.



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The Barossa is arguably the wine capital of Australia and has been since the 1840s. Known for its unique and rich taste, the prominent wine region is famous around the world. This unique attribute draws mindshare and awareness around the world.

The King Island Brand is well-recognised and extends across a range of products within Australia. Internationally, the name is known in relation to cheese, seafood, beef, water, small grid renewable energy, and sea salt and links to golf. The King Island Brand is valuable and sustainable, by virtue of the quality of the products and well-managed production systems. The brand strength has been built over a number of years. Whilst enjoying considerable benefits from the brand value, the community has had to be constantly vigilant against possible diminution of the brand value by businesses, with no association with King Island, attempting to pass off products as produced on the island.

The Highlands Brand is not a brand known for one thing like these – it is a true Destination Brand - the sum of its parts - a region that is known for beautiful landscape, great experiences and amazing produce. The resultant outcome is people wanting to buy into the lifestyle and what the brand stands for. It should also build on the existing brand, its proximity to Sydney but a completely different experience – So Close. A World Away.

## 8.3. Brand ‘Southern Highlands’ and Regional Produce

The greatest benefit to the region will likely come from the continued development of the existing Destination Brand, and the inference of this brands attributes to goods and services within the region, such as (but not limited to) Fresh Produce. Conversely, the unique regional products and services should form part of the brand identity, arguably more so than it does today.

If we look to what the local produce can both contribute and gain from this brand strategy, we should be cognisant of what the highlands already does well, and what it can potentially improve on into the future.

**Whilst companies should still have their own unique brand, there is potential for mutual benefits to all if there is an overarching provincial ‘Brand Southern Highlands’ as part of the consumer messaging.**

The brand would likely be pitched as a premium product range, and therefore brand use guidelines and quality requirements would need to be managed to ensure brand integrity. This process would also need to be included in the overall brand development strategy.

## 8.4. Leveraging Existing Industry

In terms of the established agricultural sectors in the region, the most prominent products are clearly Beef and Dairy which currently contribute some 72% of the GVP in the region. If the region is to look at promoting and selling large volumes of regional produce (beyond small scale local sales) these are the sectors that could best support such an opportunity.

Including such core products into the underlying destination brand message could be beneficial to the brand in general and enable producers of these goods to exploit increased demand and product premiumisation potential. Whilst there are opportunities, there are also some limitations which we have identified, both of which are discussed below.

### 8.4.1.1. Beef

Livestock is the largest direct agricultural contributor to the region’s economy with a total GVP of \$23million (55%) and of this over \$15million comes directly from beef production, providing a potential platform for regional recognition and brand contribution.

The region already has some strong ‘local brands’ such as the existing Snake Creek Cattle Company (<https://www.snakecreekcattlecompany.com/>) and Mauger Meats (<https://maugers.com.au/>); both of which are produced and sold in the region. However, they are not necessarily fully leveraging the destination brand, nor are they fully part of the existing brand story. Whilst each of these exemplary companies are producing what is generally recognised as premium local meat, the broader region is not synonymously known for beef products so much as other production regions in Australia.



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Exemplary brands that have succeed in regional branding initiative in this category could be looked at to better understand brand benefits and build the brand strategy. 2 such examples include:

- King Island Beef <https://kingislandbeef.com.au/>
- Cape Grim Beef <https://www.capegrimbeef.com.au/>

A potential limitation towards the development of this sector is the regions lack of an abattoir/processing facilities. There are currently no centralised services in the region for the slaughtering and butchering of meat, and the nearest option is in the neighbouring Shoalhaven LGA. This inevitably means that some value capture and control is lost and there needs to be a strategy in place to mitigate this.

## 8.4.1.2. Dairy

The Southern Highlands GVP of milk products is estimated at around \$15million per annum and contributes some 36% of the total GVP, however, the bulk of this milk is generally shipped out of the region for further processing and refinement, meaning a lot of the downstream value is lost outside of the WSC LGA. Furthermore, dairy is not a notable feature in the overall destination brand.

There are examples of niche premium production that already exist and as per beef, could both contribute to and benefit from the Destination Brand Strategy. These include business such as Pecora Dairy (<https://www.pecoradairy.com.au/about-us-1>) and Highland Organics (<https://highlandorganics.com.au/>).

The region could look to further brand value added dairy products such as butter, yoghurts and cheeses, all supported by the broader Brand Southern Highlands, and also contributing to this Brands premium image.

## 8.4.2. Viticulture, Breweries and Distilleries

Unfortunately, data for wine and distillery activity is not readily captured in the ABARES data, and the minor contribution (\$147k) of wine grapes harvested in the region may seem insignificant when compared to say Dairy or Beef, however, the contribution that these sectors make to the region is indeed very significant.

Given the relatively small production/crush volumes in the region it is also hard to acquire verifiable data from any of the major industry reports (such as the National Vintage Reports).

Regardless of the available data, the regions cellar door outlets, distilleries, and local craft beer breweries attract tourists and provide activities for weekenders and locals alike. The area is the closet cool-climate wine region to Australia's largest city, Sydney and the developing network of cellar doors, distilleries and breweries have organically become part of the Destination Brand and will continue to have a strong presence.

The ongoing inclusion in the Brand Image and conversely their ability to position themselves as a premium product should be within the overall strategy.

## 8.5. Development of Minor Existing Sectors and New Opportunities

Smaller sectors such as vegetables (GVP \$2.9million of which \$2million is potatoes) and niche products like truffles, berries and exotic mushroom production are all grown in the region and could form part of the broader Southern Highlands produce brand.

While these smaller sectors might not have the volume of supply or recognition to justify the brand development in their own right, they would of course have the opportunity to leverage a Southern Highlands food brand should it be developed, and they suit the developed brand guidelines.

Furthermore, the development of a produce brand could enable or promote the development of new industries in the region. Given the relatively small property sizes and high cost of land, new sectors will best be suited to intensive production systems, processing and value adding of existing production, rather than new extensive agricultural practices.



## 9. Funding Models

To facilitate the development of a RPH, a consideration of appropriate funding and operating models is required. There are numerous funding and operating model options, however the financial and commercial viability, outlined in [Section 7](#) of this report will heavily influence the likelihood of financing a RPH.

Generally, a funding and operating model would be tied to a preferred option based on financial feasibility as well as other factors such as deliverability and support from producers. All RPH options are possible from a land use and zoning perspective, however the main barrier to most options is the limitation of production volumes (and diversity) and how that correlates with required revenue to be commercially viable. For instance, based on the feasibility model undertaken in this report, Option 1 would require gross produce received of \$24.54m, which is considered unachievable based on the current GVP for the region.

A consideration of the production possibility and risk of each option as well as income gross revenue requirements shows that option 3a and 3b have the lowest risk and higher possible likelihood of meeting incoming produce requirements. As such option 3a and 3b have been considered for further detailed funding modelling.

*Table 30. Summary funding and delivery*

Option	Total Capex and Opex Cost (inc contingency)	Gross Produce Requirement (before margin)	Total Revenue Requirement per annum (after margin)	Production Possibility	Risk
1	(\$48,851,008.90)	\$(24,549,859.83)	(\$30,687,324.79)	Very Unlikely	Extreme
2a	(\$30,044,915.36)	\$(8,629,222.43)	\$(11,505,629.90)	Very Unlikely	High
2b	(\$17,624,884.30)	\$(5,947,216.51)	\$(7,929,622.01)	Very Unlikely	High
3a	(\$4,668,269.43)	\$(606,875.03)	(\$1,213,750.05)	Possible	Moderate
3b	\$979,123.29)	\$(133,712.90)	\$(267,425.81)	Likely	Low

### 9.1. Council Involvement

Council has indicated that it is seeking to act as a facilitator in the development of a RPH and would not seek to have any vested financial interest. However, Council have outlined possible support for assistance in funding applications. As such, the direct financing burden would need to come from a private source as well as any organisation tasked with managing the RPH.

### 9.2. Models

For option 3a and 3b there are multiple funding models which could be applied, with Council in a position to potentially facilitate.

For Option 3a the funding and operating model would be dependent on the negotiation between a willing retailer and a group representing producers. The majority of fit-out, integration and decampment costs are covered by an external party and not the retailer that would be integrating the solution.





For Option 3b there is minimal direct funding exposure. There is around \$200,000 in capital costs which predominantly are project management costs and minimal fit-out costs. The majority of cost is a leasing fee which has potential to be negotiated based on payment through sales, although it has been factored into the model as a \$/sqm per annum.

### 9.3. Preferred Option

When a preferred option has been chosen, a detailed set of funding models for that option could be identified. This will correlate with the detailed feasibility model to be provided for a preferred option. Based on our analysis we have identified Option 3 (both 3a and 3b) as the most viable option and thus should be considered for further analysis as a preferred option.



## 10. Additional Considerations- Planning Changes

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In parallel to the WSC commissioning this Feasibility Study, the NSW Government is examining legislative planning changes to make it easier for farmers across NSW to start, run and grow an agritourism business such as farm stays, cafes, retreats and reception venues to support regional communities and their economic recovery (NSW DPI, 2021 and NSW Government, 2021). It is prudent for WSC to consider the potential impacts of such changes on agriculture within the region.

The proposed amendments will make it easier for farmers to establish new complementary businesses on their land, including:

- Supporting more farm stays by:
  - amending the existing definition of ‘farm stay accommodation’ in the Standard Instrument LEP Order, and introducing an optional clause that councils can choose to adopt in their local plans to manage any impacts; and
  - enabling events on farms by introducing a new definition for ‘farm events’.
- Facilitating farm gate businesses by introducing:
  - a new definition for ‘farm gate activities’; and
  - an optional clause that councils can choose to adopt in their local plans.
- Introducing fast-track approval pathways, known as exempt and complying development, for these types of agritourism, provided certain development standards are met.
- Allowing other low impact agricultural activities as exempt or complying development, such as small processing plants where certain development standards are met.
- Making minor changes to existing planning controls to make them more effective, such as increasing the separation required for rural dwellings from intensive livestock agriculture, if carried out as complying development.

These include amendments to the Standard Instrument (Local Environmental Plans) Order 2006, State Environmental Planning Policy (Primary Production and Rural Development) 2019), and State Environmental Planning Policy (Exempt and Complying Development Codes) 2008.

The NSW Government is also considering Options for a NSW Agricultural Land Use Planning Strategy. The NSW Agriculture Commissioner was appointed in August 2020 and was tasked with reviewing the NSW Government’s Right to Farm Policy. The Commissioner has conducted a review, informed by stakeholder feedback, and a number of research reports, including the Australian Farm Institutes Managing Farm Related Land Use Conflicts in NSW. The review found that the Policy has been delivered but has not fixed the issues of land use conflict with farmers. In addition, other barriers in the planning framework to primary production have been identified.

The Commissioner recommends the development of an Agricultural Land Use Planning Strategy to address three key issues:

1. Long term availability of productive land
2. Reducing land use conflict and supporting dispute resolution
3. Support the growth of agriculture and regional economies.

This recommendation was only recent, and work is continuing in respect to the identified issues and suggested changes.



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WSC Your Say Wingecarribee

[www.yoursaywingecarribee.com.au/](http://www.yoursaywingecarribee.com.au/)



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