



Strategic Business Plan 2018 to 2028



OCTOBER 9

**Morven Glenavy Ikawai Irrigation Company
Limited**

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Introduction

The Morven Glenavy Ikawai Irrigation Company Limited (“MGI”) was formed in 1989 and has grown to a significant 29,000 hectare irrigation scheme.

MGI has underpinned its history of growth by reinvesting new share capital in further development and improved business systems and staff. The Company is now in a strong position to look to the future.

The Board of Directors and the CEO met in May 2018 to consider MGI’s strategic plan for the next 10-years. The workshop was facilitated by Chris Morrison from Lewis Tucker and was attended by:

Robin Murphy (Chairman)
Craig Evans (CEO)
Gert Van’T Klooster (Vice Chairman)
Alan Gibson
Robert Smith
Mark Hurst
Martyn Jensen
Dave Ellis

The 10-year time horizon encounters new regulatory challenges due to compliance with the nutrient loading and then the renewal of the major water permits to take water from the Waitaki River.

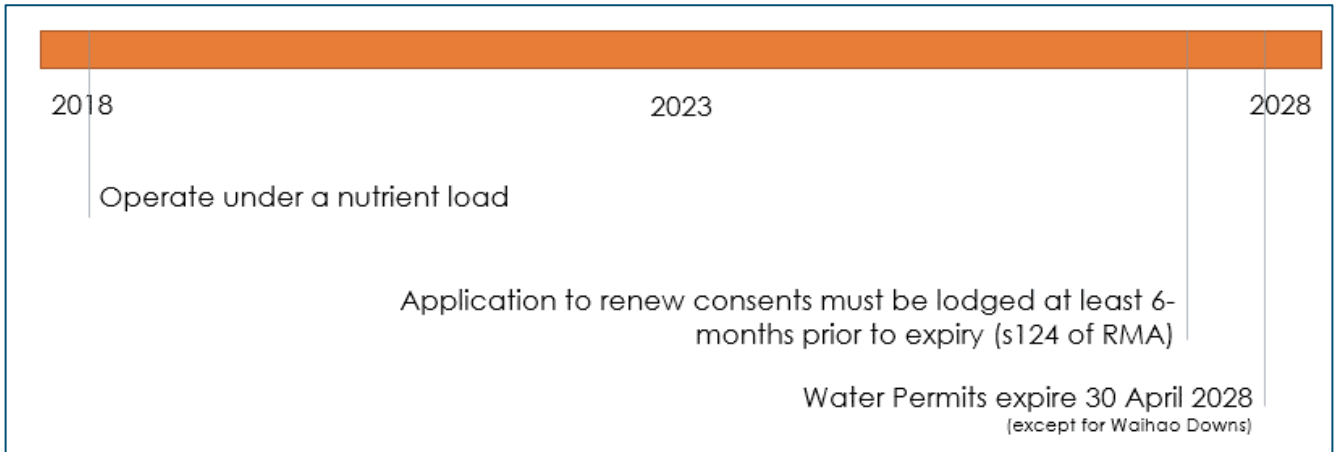


Figure 1: Major regulatory events on the ten year time horizon.

Vision

“Leading the community to a sustainable future”

Mission

“To supply reliable water to stakeholders in a socially responsible, economical and sustainable manner”

Strengths, Weaknesses, Threats and Opportunities

The political climate for farming, particularly dairying and irrigation is relatively hostile and there are challenges to MGI's social licence to operate coming from the Government, local Government and the urban community. It is particularly important to demonstrate environmental leadership and to be seen as an efficient user of water and land.

The next ten-year period is critical to MGI because our major water permits to take water from the Waitaki River expire in April 2028. The rate and volume of water allowed to be taken from the river will be reduced and it will be difficult and perhaps impossible to renew the consents at the 810mm to 1000mm application rates that the scheme has enjoyed in the past. The expectation is that the established rates for spray irrigation of 4mm/day (660mm) and 5mm/day (770mm) are more likely to be used for water allocation purposes. The stance that will be taken by Environment Canterbury and the community regarding by-wash and water losses is difficult to predict but it will be prudent to minimise these aspects of the scheme.

The recent changes to the Land & Water Regional Plan mean that MGI must obtain a scheme-wide nutrient discharge permit and our farms must operate within the allowable nutrient load. This new resource consent is likely to be granted in 2018 and so the new limits will be in force for the next irrigation season. The only way to comply with this new environmental requirement is to practice deficit irrigation that only applies water in accordance with the soil water capacity and to ensure that farms are managed in accordance with Good Management Practice (GMP).

The water allocation and efficiency constraints plus the nutrient management limits mean that there is little or no scope to continue with borderdyke irrigation in the scheme area and so the 6,200ha of land still under this irrigation method will need to change.

The SWOT (Strengths, Weaknesses, Opportunities and Threats) recognise these weaknesses and threats to the MGI business. It is critical that MGI invests resources to address the weaknesses and threats in order to protect and secure our future. This level of investment means that resources for organic and inorganic growth opportunities may be limited. There may be a trade-off required between investing in the existing infrastructure to secure our future with investing in growth, which has been a significant aspect of the business to date.

<p>Strengths</p> <ul style="list-style-type: none"> • Track record and experience • Balance sheet capacity • Strong leadership • Trusted company • Good quality water takes 	S	W	<p>Weaknesses</p> <ul style="list-style-type: none"> • Inefficient water usage • Minimal stakeholder engagement • Information gaps
<p>Opportunities</p> <ul style="list-style-type: none"> • Organic Growth • Acquisitive growth – HDW • Management contracts • Financial leverage • Industry thought leader • Future-proof infrastructure 	O	T	<p>Threats</p> <ul style="list-style-type: none"> • Water permit renewal (2028) • Regulatory creep • NGO threat • Inconsistent irrigator awareness • Borderdyke, by-wash, leakage

Figure 2: MGI SWOT analysis (May 2018).

Two forms of growth opportunities are recognised:

- 1) Organic growth – infill and extensions within MGI’s existing command area:
 - (a) The land north of the Waihao River;
 - (b) Waihao Downs Stage 2;
 - (c) Management services contracts to other irrigation schemes.

- 2) Acquisitive growth – growth by acquisition or merger of assets outside of MGI’s command area, such as Hunter Downs for example.

To maintain our social licence to operate it will be necessary to address the weakness that MGI currently has in the field of stakeholder engagement. To date it has served MGI well to keep its head down and out of the firing line and remain insular within the local farming community. This approach is considered a weakness for future engagement with the wider community in the context of the consent renewal process. MGI's major outreach to non-government organisations and other stakeholders is via the Waitaki Irrigators Collective (WIC).

Opportunity Ranking

Given the threats and weaknesses of the business, it was decided that MGI's focus should be on future-proofing infrastructure and ensuring our social licence to operate. This is a significant change from the growth-focussed strategy that MGI has had up until now and it may lead to transformational changes to infrastructure and operations.

The ranking of opportunities in terms of strategic priorities is:

- 1) Reducing water wastage within the scheme;
- 2) Addressing inefficient irrigation (on-farm);
- 3) Convert borderdyke to spray by 2025 (within 7-years);
- 4) Preparing a financial model as a decision-support tool to evaluate MGI's gearing capacity and ability to fund opportunities;
- 5) Being a thought-leader in the industry;
- 6) Growth by acquisition if it has shareholder support, low risk and generates income;
- 7) Organic growth and management contracts, subject to new shareholder interest.

Priorities for Addressing Threats

Success in delivering this new 10-year strategy and vision means that the threats to MGI need to be addressed and ideally reduced or eliminated. The management priorities for addressing the threats are listed below:

- 1) Water permit renewal (in 2028);
- 2) Reducing water wastage;
- 3) Addressing inefficient irrigation;
- 4) Mitigating the NGO threat via the WIC engagement initiative, INZ and any MGI initiatives to improve relationships;
- 5) Irrigator awareness – promote deficit irrigation through soil moisture management, water ordering;
- 6) Gap analysis of the information requirements for the AEE that will be required in 2027, so we can decide what we need to start soon;
- 7) Lifting FEP performance levels by setting targets that promote continuous improvement.

Succession Planning

The current Board of Directors comprises some very long-standing Directors that have indicated their intention to retire in the coming years. It is imperative that we nurture new Directors into the business including young farmers and females in order to promote diversity of thought at the governance level.

A discussion was held in Committee and several candidates for new Directors were identified.

Mr Murphy intends to retire in December and so it was decided that the new Chairman shall be elected at the October meeting, in time for the AGM notice and the call for nominations.

Strategic Priorities

Having consideration of the SWOT analysis and all of the issues facing MGI over the next ten years, the following strategic priorities have been determined:

- 1) Increasing water use efficiency and reducing wastage
 - a. Within the MGI scheme-owned infrastructure; and
 - b. On the farm (irrigation efficiency and FEPs).
- 2) Continuous improvement in environmental performance.
- 3) Water permit renewal in 2028.
- 4) Developing a culture of thought leadership.
- 5) Information gathering and gap analysis.
 - a. Understanding MGI's gearing capacity.
- 6) Organic growth, dependent upon farmer interest.
- 7) Acquisitive growth, provided that the risks to shareholders are acceptable and MGI can afford it.

What does success look like?

Success of the strategic priorities would be measured at 2028 and the key performance indicators are likely to be:

- Accomplished the vision by “walking the talk”
- A successful business for both MGI and its farmer shareholders
- A resilient environmental culture where farmers strive for continual improvement without being pushed to do so
- Alignment with the community

- Recognition of the value of irrigated farming

It was decided that growth should not be listed as a success factor, but capturing organic growth within the command area to meet the needs of farmers is a good outcome.

The Hunter Downs project is at a critical point at this time and are trying to secure bank funding in order to proceed. MGI will continue its support of the project on the same terms that have already been agreed. If the project falls over, then there exists the potential for MGI to raise it from the ashes at a later date if we think it meets strategic objectives.

Immediate Next Steps

	Actions	Timing
1	Document the business plan	By the end of May
2	Gearing capacity item	By the end of June
3	Study tour – identifying best practice	
4	Thought leadership – embrace the principle in the monthly agenda and management team	Immediate
5	Borderdyke plan: <ul style="list-style-type: none"> • Prepare case studies • Hold a meeting 	By 10 June
6	Information gap analysis	21 December 2018
7	Review the EMS and introduce targets, incentives and penalties	1 September 2018
8	Prepare the distribution network scoping study report	End of June
9	Organic growth – promote benefits of irrigation, then take a passive approach	
10	Acquisitive growth – use HDW case to understand the case for growth (if any).	21 December 2018