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**SALE OF CROWN-FUNDED  
IRRIGATION SCHEMES**

**Report to Parliament**

**MARCH 1992**

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## REPORT TO PARLIAMENT

Report No 1

### Introduction

The sale of the community irrigation schemes previously funded and owned by the Crown is proceeding under the provisions of the Irrigation Schemes Act 1990.

The Act is administered by the Minister of Agriculture.

The Act authorises the Ministers of Agriculture and Finance, acting jointly on behalf of the Crown, to sell or otherwise dispose of any irrigation scheme owned by the Crown. The Act sets out procedures for the transfer of assets and disposal of the schemes.

### Requirements of the Act

Section 3 (2) requires the Minister of Agriculture, as soon as practicable after a sale has been agreed, to publish in the *Gazette* and lay before the House of Representatives a statement containing such details relating to that agreement as the Minister considers appropriate.

This statement covers the sale of thirteen irrigation schemes to ten Irrigation Companies. It is the first of several statements that will report the sale of the irrigation assets. The last report will summarise the costs of the sales to the Crown and the revenue received.

### Source of Financial Information

The source of the financial information is given below. This information must be read with the statement on each scheme.

JOHN FALLOON, Minister of Agriculture.

Dated: 5 December 1991.

## AMURI IRRIGATION SCHEME

### 1. Description

Waiau, Waireka Downs and Balmoral have been combined to form one identity - Amuri Irrigation Scheme.

**Waiau:** This Scheme draws water from the Waiau River at a point south of the Leslie Hills Bridge into a small ponding area. Water is then distributed by gravity through a series of supply races to irrigate the Waiau Plain, an area of 14,500 ha on the south bank of the Waiau River.

The Scheme was constructed in five stages under the Public Works Act 1975 and water was available:

Stage 1	November 1980
Stage 2	November 1981
Stage 3	September 1982
Stage 4 & 5	September 1984

**Waireka Downs:** This Scheme draws water from an intake structure on the north bank of the Waiau River, 2km downstream from the Waiau township. The water is then distributed by gravity over an area approximately 420ha.

The Scheme was constructed in two stages under the Public Works Act 1975. Supply commenced as follows:

Stage 1	September 1976
Stage 2	September 1977

**Balmoral:** This Scheme draws water from the Hurunui River at a point just below the Mandamus Confluence situated on the north bank of the River. Water is then distributed by gravity through two main races to irrigate an area of approximately 5,400 ha.

The Scheme was constructed in two stages under the Public Works Act 1975. Supply commenced as follows:

Stage 1	September 1985
Stage 2	August 1986

*On-farm Development* for these Schemes was subsidised 50% under a suspensory loan scheme. The work is eligible for a

period of 10 years from the date water was available to the property and finally ends on 30 June 1996. The suspensory loan scheme aimed to encourage on-farm development to a consistent standard within the irrigation district.

Land use of the area irrigated by the combined scheme is 80% pastoral and 20% cropping.

The assets sold include two residential properties.

### 2. Previous Gazette References

#### (i) Waiau Plains

17 April 1975, *NZ Gazette*, No 34, page 878

1 September 1977, *NZ Gazette*, No 94, page 2383

25 July 1985, *NZ Gazette*, No 138, page 3171

#### (ii) Waireka Downs

29 May 1975, *NZ Gazette*, No 45, page 1191

#### (iii) Balmoral

10 December 1981, *NZ Gazette*, No 146, pages 3716-3717

1 August 1985, *NZ Gazette*, No 142, page 3251

15 August 1985, *NZ Gazette*, No 151, page 3505  
(Corrigendum)

### 3. Purchaser

Amuri Irrigation Company Limited

**4. Effective Date** 1.10.89

**5. Date of Purchase** 8.8.90

**6. Date of Financial Settlement** 11.1.91

### Amount of Settlement (\$)

**7. Purchase price paid for the assets** 580,000

**8. Water rates revenue refunded** 117,603

**9. Other payments by the Crown** 0

**10. Net Settlement by Purchaser** 717,538

**11. Debtors transferred to Purchaser (\$)** 809,777

### Assets & Liabilities of the Crown before Settlement (\$)

**12. Historic Capital Cost** 34,255,133

**13. Accumulated Liabilities** 3,159,722

### 14. Liabilities Retained by the Crown

Liability for compensation claims relating to construction and operation and maintenance of the Scheme prior to 1 August 1989.

## ASHBURTON LYNDHURST IRRIGATION SCHEME

### 1. Description

The Scheme is supplied with water from the Rangitata Diversion Race (RDR) which runs 67km from the Rangitata River north to the Rakaia River. The Scheme commands an area of 25,000 ha northeast of the North Ashburton River from the RDR down to State Highway 1.

The Scheme comprises water races, turnouts, drop structures and other water control features downstream of the offtake at the RDR. Water for the Scheme is drawn exclusively from the RDR via 2 turnout structures (not part of the Scheme) located to the west of Methven. The assets sold include four residential properties.

The Scheme was constructed under the Public Works Act 1928. Supply commenced in 1949.

### 2. Previous Gazette References

No *Gazette* References

### 3. Purchaser

Ashburton /Lyndhurst Irrigation Management Limited

<b>4. Effective Date</b>	1.7.89
<b>5. Date of Purchase</b>	29.10.90
<b>6. Date of Financial Settlement</b>	12.8.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	350,000
<b>8. Water rates revenue refunded</b>	541,469
<b>9. Other payments by the Crown</b>	0
<b>10. Net Settlement by Crown</b>	1,130
<b>11. Debtors transferred to Purchaser (\$)</b>	0

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	1,791,799
<b>13. Accumulated Liabilities</b>	765,028
<b>14. Liabilities Retained by the Crown</b>	Nil

**EIFFELTON IRRIGATION SCHEME****1. Description**

The Scheme supplies water to 24 properties covering an area of approximately 2,300 ha to the south-east of Ashburton.

Supply commenced in September 1987 and is pumped from a series of 10 wells to supplement existing water in three drains for a gravity border dyke application.

**2. Previous Gazette References**

8 March 1984, NZ Gazette, No 35, page 644

**3. Purchaser**

Eiffelton Community Group Irrigation Scheme Incorporated

<b>4. Effective Date</b>	20.10.90
<b>5. Date of Purchase</b>	2.7.91
<b>6. Date of Financial Settlement</b>	2.7.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	60,000
<b>8. Water rates revenue refunded</b>	7,765
<b>9. Other payments by the Crown</b>	0
<b>10. Net Settlement by Purchaser</b>	52,235
<b>11. Debtors transferred to Purchaser (\$)</b>	24,175

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	622,497
<b>13. Accumulated Liabilities</b>	50,870
<b>14. Liabilities Retained by the Crown</b>	Nil

**GALLOWAY IRRIGATION SCHEME****1. Description**

The Galloway Irrigation Scheme is supplied from two main sources. Water to the Galloway Flats is pumped from the Manuherikia River to supply the top and bottom pump races. The latter is also gravity supplied from the Lower Manorburn Dam. The Scheme has received free power from the Fraser Power Scheme under a 1947 Agreement between the Otago Central Electric Power Board and the Crown to jointly construct the power scheme. The Galloway Irrigation Company has secured a continuing interest in the Fraser Power Scheme with three other irrigation companies.

The Scheme commenced supply in 1920. It serves 25 properties commanding 1,080 ha of irrigable area. Pumped water from the Manuherikia River augmented the gravity supply to 305 ha from 1948 as well as the top race. Area supplied to mainly pastoral production with some market gardening and horticulture.

The Galloway Scheme and the Ida Valley Scheme have been managed as one accounting unit until the recent sales when the two Schemes were sold separately. The historic capital and

accumulated liabilities shown below therefore include the Ida Valley Scheme costs incurred over the life of the Scheme.

**2. Previous Gazette References**

8 May, 1924, NZ Gazette, No 30, page 1082

13 December 1926, NZ Gazette, No 81, page 3412

**3. Purchaser**

Galloway Irrigation Society Incorporated

<b>4. Effective Date</b>	4.8.89
<b>5. Date of Purchase</b>	8.10.90
<b>6. Date of Financial Settlement</b>	18.6.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	0
<b>8. Water rates revenue refunded</b>	4,600
<b>9. Establishment Grant</b>	110,000
<b>10. Net Settlement by Crown</b>	113,175
<b>11. Debtors transferred to Purchaser (\$)</b>	28,561

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	740,469
<b>13. Accumulated Liabilities</b>	4,440,664
<b>14. Liabilities Retained by the Crown</b>	

The lower Manorburn Dam is a Crown liability if proposed dam safety legislation, which will have a materially adverse effect on the viability of the Scheme, is passed within 11.5 years from 8.10.90, the Date of Purchase. Liability for compensation claims under the Public Works Act relating to the Scheme prior to 1.9.89.

**GLENBROOK IRRIGATION SCHEME****1. Description**

The Scheme draws water from a 340 mm bore west of Pukekohe to supply an area of 140 ha involving 14 properties. Water is pumped 1km to two head tanks then reticulated to orchards.

The Scheme has the potential to irrigate 240ha at a peak supply rate of 35 cubic metres per hectare per day with a minimum head of 15 metres. Supply commenced in November 1987.

**2. Previous Gazette References**

15 December 1986, NZ Gazette, No 1, page 2

28 March 1988, NZ Gazette, No 56, page 1373

**3. Purchaser**

Glenbrook Irrigation Company Limited

<b>4. Effective Date</b>	1.10.89
<b>5. Date of Purchase</b>	27.9.90
<b>6. Date of Financial Settlement</b>	19.4.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	10,000
<b>8. Water rates revenue refunded</b>	6,979
<b>9. Other payments by the Crown</b>	0
<b>10. Net Settlement by Purchaser</b>	23,619
<b>11. Debtors transferred to Purchaser (\$)</b>	39,155

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	610,660
<b>13. Accumulated Liabilities</b>	128,217
<b>14. Liabilities Retained by the Crown</b>	Nil

**GLENMARK IRRIGATION SCHEME****1. Description**

The Glenmark Irrigation Scheme was constructed on behalf of the Crown by the Hurunui District Council. The Scheme was

originally designed for 1500 ha but it was not completed due to construction problems and rising costs. The reduced scheme provides irrigation for farming and horticulture to 20 properties covering 617 ha.

Full water supply commenced in September 1983. On-farm development was subsidised 50% under a suspensory loan scheme which ends on 30 June 1992. The majority of the development has been for horticultural type activities.

## 2. Previous Gazette References

12 November 1981, *NZ Gazette*, No 134, page 3110

## 3. Purchasers

The individuals comprising the Glenmark Irrigation community. It is not intended that a company will be formed, but the following individual irrigators will form collective arrangements with the adjacent properties serving the supply ponds or pump wells:

Ken William Stackhouse, PGG Trust Ltd, Frances Eleanor Stackhouse, Sydney Maxwell John Smith, Andrew Maxwell Smith, Velda Marjorie Smith, Henry John Corbett, Anthony Edward Whyte, William John Carson, Emilie Ada Daphne Carson, Glenmark Homestead Ltd, Hutt Creek Vineyard Ltd, Brian Cecil Harris, Sydney Edgar Watson, Darryl John Harris, John P Verboeket, Ann Verboeket, Anthony Arthur Paul Willy, Helen Mary Willy, Gum View Ltd, Glenalton Farm Ltd, Darenal Estates Ltd, Paul David Harris.

4. Effective Date	9.8.91
5. Date of Purchase	20.8.91
6. Date of Financial Settlement	20.8.91

## Amount of Settlement (\$)

7. Purchase price paid for the assets	0
8. Water rates revenue refunded	0
9. Compensation paid	177,000
10. Net Settlement by Crown	177,582
11. Debtors transferred to Purchaser (\$)	0

## Assets & Liabilities of the Crown before Settlement (\$)

12. Historic Capital Cost	4,317,466
13. Accumulated Liabilities	75,066
14. Liabilities Retained by the Crown	Nil

## HAWKDUN-IDABURN IRRIGATION SCHEME

### 1. Description

Hawkdun and Idaburn Irrigation Schemes have been combined to form one identity—the Hawkdun-Idaburn Scheme.

*Hawkdun Irrigation Scheme:* Includes the Eweburn Dam which supplements the various natural flows from rivers and creeks along the base of the Hawkdun Range between the Manuherikia River and Naseby Township. Numerous races, including tributary races, total approximately 305km. Combined with syphons, drops, and turnout gates, the works distribute the irrigation supply to an irrigable area of approximately 3,500 ha to more than 70 properties. The race system also serves as a stock water distribution system.

The scheme was based upon early mining ventures. The main race, known as the Mount Ida Race, was authorised in 1873 by proclamation and is over 100km long. It was operated by the Mines Department for many years. The reservoir at East Eweburn was constructed in 1901-02. The works were taken over by the Public Works Department in 1924 when mining declined and the system was overhauled and races enlarged. The upgraded supply for irrigation commenced in 1929.

Initially mining ventures were supplied as well as irrigation and stock water supply. The limited water available resulted in some water being supplied to the whole area and subsequently Hawkdun was never more than a partial irrigation scheme.

*Idaburn Scheme:* This Scheme is based on a water supply from the Idaburn Dam which was constructed in 1931. It supplies 200ha in the Oturehua area.

The assets sold include a depot and a residential property at Ranfurly.

## 2. Previous Gazette References

### Hawkdun Irrigation District

8 April 1926, *NZ Gazette*, No 21, page 904

30 August 1928, *NZ Gazette*, No 66, page 2719

30 August 1934, *NZ Gazette*, No 67, page 2741

### Idaburn Irrigation District

25 June 1931, *NZ Gazette*, No 67, page 2741

## 3. Purchaser

Hawkdun Idaburn Irrigation Company Limited

4. Effective Date	4.8.89
5. Date of Purchase	3.7.90
6. Date of Financial Settlement	21.6.91

## Amount of Settlement (\$)

7. Purchase price paid for the assets	1
8. Water rates revenue refunded	180,806
9. Establishment Grant	105,873
10. Net Settlement by Crown	275,486
11. Debtors transferred to Purchaser(\$)	0

## Assets & Liabilities of the Crown before Settlement (\$)

12. Historic Capital Cost	292,554
13. Accumulated Liabilities	4,045,220
14. Liabilities Retained by the Crown	

West Eweburn and Idaburn Dams are a potential Crown liability if proposed dam safety legislation, which will have a materially adverse effect on the viability of the Scheme, is passed within 10 years from 3.7.90, the Date of Purchase.

## MAYFIELD HINDS IRRIGATION SCHEME

### 1. Description

The Scheme is supplied with water from the Rangitata Diversion Race (RDR) which runs 67km from the Rangitata River north to the Rakaia River. The Scheme commands an area of 32,000 ha between the Rangitata River and the Hinds River to the northeast, down to the coastal side of State Highway 1.

The Scheme comprises water races, turnouts, drop structures and other water control features downstream of the offtake at the RDR. Water for the Scheme is drawn exclusively from the Rangitata Diversion Race via a single turnout structure (not part of the Scheme). The Scheme assets include four residential properties.

The Scheme was constructed under the Public Works Act 1928. Supply commenced in 1949.

## 2. Previous Gazette References

No *Gazette* reference

## 3. Purchaser

Mayfield Hinds Irrigation Management Limited

<b>4. Effective Date</b>	1.7.89
<b>5. Date of Purchase</b>	29.10.90
<b>6. Date of Financial Settlement</b>	3.8.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	550,000
<b>8. Water rates revenue refunded</b>	565,914
<b>9. Other payments by the Crown</b>	0
<b>10. Net Settlement by Purchaser</b>	131,784
<b>11. Debtors transferred to Purchaser (\$)</b>	0

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	2,805,389
<b>13. Accumulated Liabilities</b>	409,469
<b>14. Liabilities Retained by the Crown</b>	Nil

**RANGITATA DIVERSION RACE****1. Description**

The Race presently supplies water to three irrigation schemes with a gross command area of 68,000 ha water for hydro generation at two power stations, stockwater race system and two private irrigators. Recreational activities are also provided for.

Construction was approved in 1936 under the Finance Act (No 4) 1931 as a special labour employment scheme. The Race was commissioned in 1945. The Race is an earth channel 67 km long. It passes under eight rivers via inverted syphons before discharging through the Highbank Power Station into the Rakaia River. The capacity of the Race is 31 cumec at Klondyke on the Rangitata River and 28 cumec at Highbank. Water is used for irrigation in summer and power generation in winter. Water management plans exist for the facility in conjunction with both the Rangitata and the Ashburton Rivers.

The assets sold include two residential properties.

**2. Previous Gazette References**

No Gazette reference

**3. Purchaser**

Rangitata Diversion Race Management Limited

<b>4. Effective Date</b>	1.7.89
<b>5. Date of Purchase</b>	29.10.90
<b>6. Date of Financial Settlement</b>	14.8.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	1
<b>8. Water rates revenue refunded</b>	257,358
<b>9. Other payments by the Crown</b>	0
<b>10. Net Settlement by Crown</b>	105,210
<b>11. Debtors transferred to Purchaser (\$)</b>	626,728

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	1,540,847
<b>13. Accumulated Liabilities</b>	2,085,738
<b>14. Liabilities Retained by the Crown</b>	Nil

**TEBBUTTS ROAD IRRIGATION SCHEME****1. Description**

The Scheme draws water from the Wairoa River south-west of Tauranga to supply an area of 87 ha involving 12 properties. Water is pumped to a header reservoir then reticulated by gravity to orchards.

The Scheme has the potential to supply 90 ha with approximately 45 ha already planted in kiwifruit. Supply commenced in December 1983. The Scheme was constructed by the Crown and subsequently operated by the Tauranga

County Council (now Western Bay of Plenty District Council) on behalf of the Crown in terms of an agency agreement.

**2. Previous Gazette References**

4 August 1983, NZ Gazette, No 117, page 2486

**3. Purchaser**

Tebbutts Road Irrigation Scheme Limited

<b>4. Effective Date</b>	15.9.89
<b>5. Date of Purchase</b>	12.11.90
<b>6. Date of Financial Settlement</b>	29.5.91

**Amount of Settlement (\$)**

<b>7. Purchase price paid for the assets</b>	1
<b>8. Water rates revenue refunded</b>	43,191
<b>9. Establishment Grant</b>	8,000
<b>10. Net Settlement by Crown</b>	42,056
<b>11. Debtors transferred to Purchaser (\$)</b>	0

**Assets & Liabilities of the Crown before Settlement (\$)**

<b>12. Historic Capital Cost</b>	632,942
<b>13. Accumulated Liabilities</b>	6,958
<b>14. Liabilities Retained by the Crown</b>	Nil

**SOURCE OF FINANCIAL INFORMATION**

The financial information in this report has been prepared by the Ministry of Agriculture and Fisheries (MAF) from the best historical information available to the Ministry when it took over responsibility for Community Irrigation Schemes owned by the Crown on 1 April 1988. The approach taken by MAF was determined and assessed by Touche Ross, Accountants, and found to be valid. The Audit Office reviewed the the accounts prepared by MAF for presentation and reasonableness of the accounting treatment.

**Accounting by the Crown**

The Crowns irrigation assets and liabilities were not recorded in the Crown Accounts during the management of the assets by the Ministry of Works prior to 1 April 1988. After the assets were transferred to MAF on 1 April 1988, expenditure from that date was recorded in the accounts of MAF Technology until 30 June 1990. From 1 July 1990, all expenditure on the operation and maintenance of the schemes, and the costs and revenue from their sales have been recorded in the Crown accounts.

The full balance sheets for the Crown Accounts were established on 1 July 1991. The values of the assets and liabilities were based on the estimated amounts due to be received by and paid by the Crown after 1 July 1991 under the terms of the Sale and Purchase Agreements.

**Settlement Payments to or by the Purchasers**

The financial settlements with the Purchasers were carried out by MAF. The final outcomes of the settlements were reviewed by Deloitte Ross Tohmatsu. The sources of the information were not audited, nor were they reviewed in terms of the New Zealand Society of Accountants Statement of Review Engagement Standards. The financial information has, however, been accepted by the Irrigation Companies concerned as full and final settlement of their Agreements for purchase of the assets.

Prior to making payment, the settlements were referred to Treasury to confirm that they reflected the intentions of the Sale and Purchase Agreements.

**GST Liability**

These financial statements do not include GST although the settlement payments by the Crown cover the Purchasers' liability for GST. The Purchasers paid GST on work carried out by the Crown after the **effective date**, but were not required to pay GST on the price paid for the assets.

**List of Crown-funded Irrigation Schemes Sold**

Purchased as	Crown Scheme	
Amuri Plains	Waiau Plains, Waiareka Downs, Balmoral	3
Arrow	Arrow River	1
Ashburton-Lyndhurst	Ashburton-Lyndhurst	1
Bannockburn	Bannockburn	1
Beggs	part of Ardgour	1
Blackstone	part of Omakau	1
Burn Cottage	Burn Cottage	1
Earnsclough	Earnsclough/Blackmans	1
Eiffelton	Eiffelton	1
Galloway	Galloway	1
Glenbrook	Glenbrook	1
Glenmark	Glenmark	1
Greenstreet	Greenstreet	1
Hawea	Hawea Flat	1
Hawkdun Idaburn	Hawkdun and Idaburn	2
Ida Valley	Ida Valley	1
Kerikeri	Kerikeri, Puketotara, and Kapiro Pungaere	3
Last Chance	Last Chance	1
Levels Plain	Levels Plain	1
Loburn	Loburn	1
Lower Waitaki	Lower Waitaki	1
Luggate Creek	(mining rights previously leased)	0
Maerewhenua	Maerewhenua Settlement	1
Maniototo	Maniototo	1
Manuherikia	Manuherikia	1
Maungatapere	Maungatapere	1
Mayfield-Hinds	Mayfield-Hinds	1
Morven Glenavy Ikawai	Morven Glenavy and Redcliffs	2
Omakau	Omakau	1
Pisa	Pisa	1
Pukerimu	Pukerimu	1
Rangitata Diversion Race	Rangitata Diversion Race	1
Ripponvale	Ripponvale	1
Tablelands	Tablelands	1
Tarras-Ardgour	Ardgour and Tarras	2
Te Kauwhata	Te Kauwhata	1
Tebbutts Road	Tebbutts Road	1
Teviot	Teviot	1
Upper Waitaki	Upper Waitaki and Upper Waitaki Extension	2
Valetta	Valetta Farm Settlement	1
Waiaua	Waiaua	1
Waimea East	Waimea East	1
Wolds	Wolds	1
41 Schemes sold	Total number of irrigation schemes constructed	50
2 Schemes not yet sold (Beggs, Pukerimu)		

**Valuing the Irrigation Schemes**

A valuation model was developed jointly by the Ministry of Agriculture and Fisheries and the Treasury. This model formed the basis for the Crown's negotiation with irrigators. In effect, values determined by using this model became upper bounds on the sale process.

The model first calculated the price that the irrigators could pay for water, based on the production differential between dry land and irrigated land. The expected operating and maintenance costs were then added into the model and pre-tax and post-tax cash flows were calculated. The post-tax cash flow was discounted at a 7.5% real, post-tax rate of return (approximately equivalent to 11% pre-tax) to produce an economic value for the scheme. The discount rate was based on expected rates of return for other rural investments.

The above value was then adjusted downwards in recognition that as a normal commercial product, water can be used as an input for a wide range of products on farm. Therefore, it cannot be sold to individuals at different prices reflecting different land uses. As the predominant water use was for pastoral irrigation for sheep farming, the valuation was recalculated assuming that the gross margins for sheep applied to the total area currently irrigated. In essence, the value calculated was the marginal value for sheep farming.

The values calculated by the model were dependent on a number of key assumptions. The most important of these was that all past costs incurred by both the Crown and irrigators were sunk, that a uniform water charge is applied across all the users of each scheme, and that the charge must be affordable to a substantial majority of those users.

It was also recognised that a scheme's value is related to past investment by both the Crown and the Irrigators. The Crown in the form of capital costs and accumulated liabilities; the Irrigators in the form of on-farm development costs and, in some cases, a share of the off-farm costs. It was also recognised that the two sets of investments are equivalent to shares in a partnership, with one partner having the opportunity to buy out the other.

A number of other factors could not be included in the valuation model but nonetheless played a role in determining sale prices. Through the negotiation process, these factors, for example the level of risk and historical debt, generally acted to reduce the estimated value of the schemes.

The sale process was also constrained by the absence of competitive bidders because the Government directed that schemes would be offered first to irrigators. While this undoubtedly had the effect of reducing sale prices, it also minimised monopoly and regulatory questions that would have arisen if schemes had been sold to a party other than the irrigators. The offers that were finally accepted from irrigators were below the Treasury's estimate of the irrigators' share of the commercial value of the scheme derived by the above valuation process. It is believed that for many of the schemes there would have been few, if any, alternative buyers.

**GLOSSARY****1. Description**

This section describes the main physical features of the assets sold by the Crown that relate to the sale and purchase agreement. Two or more adjacent irrigation schemes constructed by the Crown as separate legal entities may have been combined for the purposes of sale.

**2. Previous Gazette references**

These are the Order or Orders in Council defining the Irrigation District(s) for the scheme(s) constructed by the Crown. These Orders were automatically revoked under the provisions of the Irrigation Schemes Act 1990 when the ownership of the assets transferred to the Purchaser.

**3. Purchaser**

The legal entity that purchased the assets. They are all irrigators.

**4. Effective Date**

The date from which the Purchaser accepted financial responsibility for the scheme.

**5. Date of Purchase**

The date on which the sale and purchase agreement for each sale became unconditional.

**6. Date of Financial Settlement**

The date on which the Purchaser legally became the owner of the assets. This date was agreed between the parties after the net settlement was finalised.

**7. Purchase Price Paid for the Assets**

The negotiated price for the assets.

### 8. *Water Rates Revenue Refunded*

Revenue collected by the Ministry of Agriculture and Fisheries for water supplied during the irrigation season or seasons prior to the **effective date** are paid to the Purchaser. If the Crown continued to operate the scheme after the effective date, the operating costs were deducted from the revenue due to be refunded to the Purchaser. This revenue was not included in the assets valued for sale.

The revenue was returned because of the cash flow effects of changing from a system of charging in arrears to current invoicing. In the past, irrigators were invoiced annually after the end of the irrigation season. This meant that in the year the irrigators took over responsibility for the scheme, water rates paid to the Crown for operating the scheme during the previous irrigation season occurred at the same time as the irrigators commenced payments for current operations under their own company structure.

### 9. *Other Payments by the Crown*

These are grants to complete the initial construction of new schemes or to cover the liabilities of completed schemes such as compensation for cancellation of water supply agreements, completion of dam investigations, provision of new works to improve or extend the water supply, refurbishment of water races.

### 10. *Net Settlement*

The amount of settlement had regard to the **purchase price, water rates revenue refunded** less any work done by the Crown for the Purchaser after the **effective date, payments by the Crown** and penalty interest.

Financial settlement was concluded with a payment by either the Purchaser or the Crown. Late payments attracted penalty interest where there was an agreement to do so.

### 11. *Debtors Transferred to the Purchaser*

Revenue not collected by the Crown for water supplied during irrigation seasons prior to the **effective date**. The debtors ledger was transferred to the purchaser with the right to collect the debts.

### 12. *Historic Capital Costs*

These are the costs incurred by the Crown on the construction of the irrigation scheme and are reported in the dollars of the day. These costs include refurbishment of the old Central Otago schemes. The historic costs also include on-farm development for schemes approved between 1975 and 1983

plus any amounts unpaid by participating farmers for their 50% share of the cost.

Historic costs, in the main, represent the cost of the off-farm works prior to the commencement of the water supply as given in the **description** for each scheme.

### 13. *Accumulated Liabilities*

These comprise both operating losses and non-operating losses over the life of the scheme up to the **effective date**. The sums shown are in dollars of the day.

**Operating losses** are those day to day costs incurred in the operating and maintenance of the scheme. They include unpaid water rates levied on the users for payment of those activities.

**Non-operating losses** are those costs arising from the accumulation of capital charges. These apply only to schemes constructed after 1975 where the users were required to pay a portion of the capital spent on the construction of the scheme as a loan. The non-operating losses also include interest on a portion of the capital spent by the Crown and applies to all schemes but in different portions. Penalties on water rates are also included under this heading.

### 14. *Liabilities Retained by the Crown*

The Crown retained liabilities where the cost is uncertain and likely to be significant. These largely relate to unsettled compensation claims arising from scheme construction and possible liabilities pertaining to the irrigation dams.

## REFERENCES

1. *Corporate Structure for Private Ownership of Community Irrigation Schemes in New Zealand*, Touche Ross, September 1988
2. *New Zealand Community Irrigation Schemes Historical Accounts up to the Completion of the 1987/88 Irrigation Season*; 2 volumes, Ministry of Agriculture, December 1989
3. *Irrigation Schemes Annual Accounts for the 1988/89, 1989/90 and 1990/91 Irrigation Seasons*, 3 volumes, Ministry of Agriculture
4. *The Process for Disposal of Crown-funded Irrigation Schemes*, Audit Office, July 1991
5. *Crown Irrigation Schemes Disposal, Accountants Statement*, Vol 1, Ministry of Agriculture and Deloitte Ross Tohmatsu, October 1991



