



# New Zealand Gazette

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## SALE OF CROWN-FUNDED IRRIGATION SCHEMES

### Report to Parliament

July 1994

# Sale of Crown-funded Irrigation Schemes

## Report to Parliament

### Report No 3

#### Introduction

The sale of the community irrigation schemes previously funded and owed 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 the agreement as the Minister considers appropriate.

This statement covers the sale of 12 irrigation schemes to 9 Irrigation Companies and 1 scheme sold to a landowner. It is the third 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 financial information is given on page 2881. This information must be read with the statement on each scheme.



Minister of Agriculture

Dated: 31 May 1994

# Greenstreet

## 1. Description

The scheme lies between the North and South branches of the Ashburton River and draws water from Spring Creek, O'Shea's Creek and the South Ashburton River. Water is diverted into a headpond, passes through a fish screen and into a main race for distribution within the irrigated area. The total area irrigated is 1,700 hectares border-dyked and 400 hectares spray irrigated. Land use is about 60% sheep and dairy with the remainder agriculture crops and orchards.

The scheme was funded under the 1975 amendment to the Public Works Act 1928 with 100% grant for headworks, a 50% grant for works to distribute the water to farms, and on-farm development loans (see below). A 50% grant was also paid for replacing the open race stock water supply with a piped system which cost \$39,615.

The Greenstreet Scheme was the first irrigation scheme to benefit under the 1975 Government policy to fund on-farm development works over a period of 10 years from the commencement of the water supply. The policy was backdated to 1973 when on farm work started at Greenstreet. A seven year suspensory loan for 33% of the costs of on-farm irrigation development was provided until 1978 when the loan was increased to 50% with a 10 year suspensory period. (At the end of the suspensory period the owner is discharged from any responsibility to repay the loan).

The landowners paid their share of the costs of the irrigation and piped water system as the work was carried out. This was the only irrigation scheme where this occurred. A committee of land-owners, responsible to the local Council, operated and maintained the scheme when it was completed. The water supply commenced in 1975.

## 2. Previous Gazette References

20 May 1976, NZ Gazette No 58, Page 1118  
5 November 1987, NZ Gazette No 191, page 5012.

## 3. Purchaser

Greenstreet Irrigation Management Ltd

<b>4.</b>	<b>Effective Date</b>	<b>29.10.90</b>
<b>5.</b>	<b>Date of Purchase</b>	<b>29.10.90</b>
<b>6.</b>	<b>Date of Financial Statement</b>	<b>4.3.91</b>

<b>Amount of Settlement (\$)</b>		
7.	· Purchase price paid for the assets	5,000
8.	· Water rates revenue refunded	0
9.	· Other payments by the Crown	0
10.	· Net Settlement by Purchaser	5,000
11.	Debtors transferred to Purchaser (\$)	0

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>		
12.	· Historic Capital Cost	1,250,907
13.	· Accumulated Liabilities	0

14.	<b>Liabilities Retained by the Crown</b>	
	None	

# Hawea Flat

## 1. Description

The Hawea Flat Scheme takes up to 1.2 cumecs of water from Lake Hawea via a syphon through the Hawea hydroelectric dam. When Lake Hawea is too low for the syphon to work a pump maintains the supply into the syphon. The lowest operating level for the pump is tied in with the minimum Lake Hawea operating level. The cost of operating the pumps during the irrigation season is paid by the Electricity Corporation. Pumping costs outside the irrigation season are shared between the Corporation and the Irrigation Company.

Water irrigates 943 hectares of farmland producing mainly fat lamb, mixed-crops and small seeds. Application is mainly by border-dyke with some spray. The scheme was funded under the 1960 amendment to the Public Works Act 1928 with a 100% grant for off-farm works. The Act provided for annual water charges to include interest on one-quarter of the capital.

## 2. Previous Gazette References

2 October 1963, NZ Gazette No 2, page 1525

15 April 1987, NZ Gazette No 55, page 1691

## 3. Purchaser

Hawea Irrigation Company Ltd

<b>4.</b>	<b>Effective Date</b>	<b>4.5.89</b>
<b>5.</b>	<b>Date of Purchase</b>	<b>8.7.90</b>
<b>6.</b>	<b>Date of Financial Statement</b>	<b>5.11.92</b>

<b>Amount of Settlement (\$)</b>		
<b>7.</b>	· <b>Purchase price paid for the assets</b>	<b>0</b>
<b>8.</b>	· <b>Water rates revenue refunded</b>	<b>44,848</b>
<b>9.</b>	· <b>Other payments by the Crown</b>	<b>25,000</b>
<b>10.</b>	· <b>Net Settlement by Crown</b>	<b>54,689</b>
<b>11.</b>	<b>Debtors transferred to Purchaser (\$)</b>	<b>11,298</b>

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>	
<b>12.</b>	<b>· Historic Capital Cost</b> <span style="float: right;"><b>376,585</b></span>
<b>13.</b>	<b>· Accumulated Liabilities</b> <span style="float: right;"><b>676,605</b></span>
<b>14.</b>	<b>Liabilities Retained by the Crown</b>
	None

# Kerikeri

## 1. Description

Irrigation in the Kerikeri Irrigation district is provided by the following three distinct schemes which have been sold together as the Kerikeri scheme.

Kerikeri The Kerikeri scheme comprises two regions lying north and south of the Waipapa stream. Each region has its own reservoir which stores water throughout the year. Lake Waimanu in the Waipapa stream catchment has a capacity of 8.5 million cubic metres and can supply 1,283 hectares of orchards in the northern area, while the southern area is serviced from Lake Waingaro on the Waiwhakangarongaro Stream which has a capacity of 5.1 cubic metres and can supply 1,045 hectares. The lakes are formed by two earth dams and associated smaller dams and weirs on side streams and diversion channels.

Funding was provided in terms of the 1975 amendment of the Public Works Act 1928 with a 100% grant for the dams and other headworks and a 50% grant for works to distribute the water to properties. A 10-year suspensory loan for orchard development was available for 10 years from the date the water supply commenced. The loan paid 50% of the costs of reticulating orchards.

Puketotara The Puketotara scheme uses the same water source as the southern area of the Kerikeri scheme but relies on two pump stations to provide the supply. An additional 367 hectares receive water through this scheme. Supply commenced late in 1983. The scheme was funded under the Public Works Act 1981 which provided the same funding as for the Kerikeri scheme.

Kapiro Pungaere The Kapiro Pungaere part of the Kerikeri Irrigation scheme was the last to be completed. It draws water from the same source as the northern part of the Kerikeri scheme through an additional intake. Piped reticulation, supported by a number of pump stations, can supply 830 hectares. The scheme received funding according to the 1983 amendment to the Public Works Act 1981 with a 70% grant for off-farm works (headworks and distribution works). No funding was provided for reticulation within orchards.

Combined Schemes Water is gravity supplied through a piped system to about 90% of the southern area and, with the assistance of water turbines, to about 75% of the northern area. The balance of the areas rely on pumping. The design flow is 3,000 cubic metres per year per hectare. Water supply began in 1982 in the southern area and in late 1983 for the northern area. The Kerikeri and Puketotara Schemes were planned to serve 264 horticultural properties prior to subdivisions. Only about 135 hectares of the 830 hectares in the Kapiro scheme were developed for horticulture before the sale of the Scheme. Most of the water for the Kerikeri township is supplied by the scheme.

The Schemes were operated and maintained for the Crown by the Far North District Council (then Bay of Islands County Council) under an agency agreement until their sale.

## 2. Previous Gazette References

<u>Kerikeri</u>	15 January 1981, NZ Gazette No 1, page 2
<u>Puketotara</u>	23 June 1983, NZ Gazette No 88, page 1919
<u>Kapiro - Pungaere</u>	6 December 1984, NZ Gazette No 227, page 5456 31 March 1988, NZ Gazette No 56, page 1374

## 3. Purchaser

Kerikeri Irrigation Company Ltd

4.	<b>Effective Date</b>	<b>1.9.89</b>
5.	<b>Date of Purchase</b>	<b>10.7.90</b>
6.	<b>Date of Financial Statement</b>	<b>24.6.93</b>

<b>Amount of Settlement (\$)</b>		
7.	· <b>Purchase price paid for the assets</b>	<b>0</b>
8.	· <b>Water rates revenue refunded</b>	<b>201,600</b>
9.	· <b>Other payments by the Crown</b>	<b>197,001</b>
10.	· <b>Net Settlement by Crown</b>	<b>282,245</b>
11.	<b>Debtors transferred to Purchaser (\$)</b>	<b>87,888</b>

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>		
12.	· <b>Historic Capital Cost</b>	<b>20,716,978</b>
13.	· <b>Accumulated Liabilities</b>	<b>653,869</b>

## 14. Liabilities Retained by the Crown

The two 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 10.7.90, the Date of Purchase. The owners have up to 18 months after that time to register a claim.



# Luggate Creek

## 1. Description

Mining privileges on Luggate Creek were acquired prior to 1930 by the Crown with a view to eventually establishing a community irrigation scheme. The proposal did not eventuate. Over the years the privileges were leased to a number of parties on the basis of four-year rental agreements with annual renewals. The Crown retained the right to cancel the leases should it decide to progress with a community scheme.

The rights provide water and access for irrigation and domestic use in the township of Luggate. The assets were sold to a farmer who was leasing them for irrigation with the expectation that agreements would be established to continue the water supply to Luggate.

## 2. Previous Gazette References.

Crown Mining Privileges, licences 7284, 7285, 7286, 7298

## 3. Purchasers

N.W. & D.J. Pittaway

4.	<b>Effective Date</b>	<b>9.1.91</b>
5.	<b>Date of Purchase</b>	<b>9.1.91</b>
6.	<b>Date of Financial Statement</b>	<b>5.8.92</b>

<b>Amount of Settlement (\$)</b>		
7.	· <b>Purchase price paid for the assets</b>	<b>7,912</b>
8.	· <b>Water rates revenue refunded</b>	<b>0</b>
9.	· <b>Other payments by the Crown</b>	<b>0</b>
10.	· <b>Net Settlement by Purchaser</b>	<b>7,912</b>
11.	<b>Debtors transferred to Purchaser (\$)</b>	<b>0</b>

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>	
12.	· <b>Historic Capital Cost</b> 0
13.	· <b>Accumulated Liabilities</b> 0
14.	<b>Liabilities Retained by the Crown</b>
	None

# Tablelands

## 1. Description

The Tablelands Irrigation Scheme supplies 280 hectares of mainly horticultural land with some dairying. The Scheme is located near Opotiki in the southern Bay of Plenty. Water pumped from an intake in the bed of the Otara River to a reservoir for a piped gravity supply to the irrigators. Booster-pumps ensure there is a uniform pressure to all landowners. Irrigation is through a trickle system. The water supply commenced in 1983.

Funding was provided in terms of the 1975 amendment to the Public Works Act 1928 with a 100% grant for headworks and a 50% grant for distribution works. A 10 year suspensory loan for orchard development was available for 10 years from the date the water supply commenced. The loan paid 50% of the costs of reticulating orchards.

## 2. Previous Gazette References

8 October 1981, NZ Gazette No 117, page 2781  
2 December 1982, NZ Gazette No 145, page 4169

## 3. Purchaser

Tablelands Irrigation Scheme Ltd

<b>4.</b>	<b>Effective Date</b>	<b>15.9.89</b>
<b>5.</b>	<b>Date of Purchase</b>	<b>25.7.90</b>
<b>6.</b>	<b>Date of Financial Statement</b>	<b>19.12.90</b>

<b>Amount of Settlement (\$)</b>		
<b>7.</b>	· <b>Purchase price paid for the assets</b>	<b>1</b>
<b>8.</b>	· <b>Water rates revenue refunded</b>	<b>48,974</b>
<b>9.</b>	· <b>Other payments by the Crown</b>	<b>0</b>
<b>10.</b>	· <b>Net Settlement by Crown</b>	<b>14,353</b>
<b>11.</b>	<b>Debtors transferred to Purchaser (\$)</b>	<b>35,732</b>

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>	
12. · <b>Historic Capital Cost</b>	<b>1,704,121</b>
13. · <b>Accumulated Liabilities</b>	<b>79,949</b>
<b>14. Liabilities Retained by the Crown</b>	
None	

# Tarras-Ardgour

## 1. Description

The Tarras and the Ardgour Schemes were combined for their sale. The schemes have separate intakes in the Lindis River gorge. Water is carried down the gorge in long concrete lined channels that have been prone to damage over the years. Irrigation is by border-dykes and wild flooding from contour ditches.

The Tarras irrigated area is 1,100 ha. The Ardgour irrigated area is 485 hectares within the lower end of the Lindis Valley. The construction of the Tarras and Ardgour schemes were made possible by the acquisition of mining privileges. The construction of the Ardgour scheme also resulted in a commitment in 1934 to maintain the priority of supply to land further down the Lindis Vally which was then owned by Beggs and Stackpole who had been irrigating since 1900. The commitment to the present irrigators under the 1934 Beggs/Stackpole agreement was retained by the Crown with the sale of the Tarras-Ardgour Scheme.

Both schemes were funded under the 1910 amendment to the Public Works Act 1908 with a 100% grant for off-farm works.

## 2. Previous Gazette References

Argour	25 January 1923, NZ Gazette No 7, Page 197
Tarras	9 August 1923, NZ Gazette No 62, page 2183
	17 May 1928, NZ Gazette No 43, page 1649

## 3. Purchaser

Lindis Irrigation Ltd

<b>4.</b>	<b>Effective Date</b>	<b>1.9.91</b>
<b>5.</b>	<b>Date of Purchase</b>	<b>11.9.91</b>
<b>6.</b>	<b>Date of Financial Statement</b>	<b>24.4.92</b>

<b>Amount of Settlement (\$)</b>	
7. · Purchase price paid for the assets	0
8. · Water rates revenue refunded	165,293
9. · Other payments by the Crown	116,335
10. · Net Settlement by Crown	59,652
11. Debtors transferred to Purchase	5,059

  

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>	
12. · Historic Capital Cost	441,485
13. · Accumulated Liabilities	2,362,671

  

14. <b>Liabilities Retained by the Crown</b>
None

# Teviot

## 1. Description

The Teviot scheme draws water from Lake Onslow, a resource now shared with the Otago Central Electric Power Company. Water is distributed to the north and south of the Teviot River through pipes, and many syphon and open races which were constructed by the Crown for irrigation. The Power Company subsequently constructed a larger dam, river weir, penstocks and pressure pipes to use the same water source for power generation. Many of the new facilities serve both irrigation and power generation during the irrigation season but the bulk of the generation is mainly outside the irrigation season. The Power Company supplies water for irrigation free of charge at the original points of intake into the distributions system.

The area served by the scheme is 1,464 hectares. In recent years, horticultural development has increased significantly with a corresponding demand for on-farm storage and frost-fighting facilities. The remainder of the scheme area is in pasture with wild flooding, contour and spraying being the most prevalent methods of irrigation application.

The scheme was funded in terms of the 1910 amendment to the Public Works Act 1908 with a 100% grant for off-farm works.

## 2. Previous Gazette References

5 July 1923, NZ Gazette No 55, page 1831

7 July 1927, NZ Gazette No 46, page 2215

## 3. Purchaser

Teviot Irrigation Company Ltd

4.	<b>Effective Date</b>	<b>1.9.89</b>
5.	<b>Date of Purchase</b>	<b>10.7.90</b>
6.	<b>Date of Financial Statement</b>	<b>2.11.92</b>

<b>Amount of Settlement (\$)</b>		
7.	· Purchase price paid for the assets	0
8.	· Water rates revenue refunded	86,798
9.	· Other payments by the Crown	100,000
10.	· Net Settlement by Crown	211,471
11.	Debtors transferred to Purchaser (\$)	9,812

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>		
12.	· Historic Capital Cost	212,620
13.	· Accumulated Liabilities	2,097,053

14. **Liabilities Retained by the Crown**

Claims for compensation claimable under the Public Works Act 1981 relating to the Scheme prior to the Purchase Date.



# Valetta

## 1. Description

Farm development of the Valetta area began as a farm settlement scheme in the 1950's. The Valetta Irrigation Scheme was the last of the irrigation schemes in Mid Canterbury to be developed from the Rangitata Diversion Race (RDR). The scheme is flanked by the much more extensive Ashburton-Lyndhurst Irrigation Scheme to the north and Mayfield-Hinds Irrigation Scheme to the south, both of which also draw water from the RDR.

Water supply commenced in 1958. The Scheme supplies water to 7,385 hectares involving approximately 50 farmers on mainly sheep farming land. Water is distributed from the RDR through open races to farm properties for border-dyke irrigation.

The Scheme anticipated the funding provisions of the Public Works Act 1960 which provided a 100% grant for off-farm works and a 10 year development period. Charges were increased in annual steps over the 10 year period until they covered the annual operating costs and interest on quarter of the capital cost. The charges deferred for the development period were intended for recovery over 40 years together with the annual operating and maintenance charges.

## 2. Previous Gazette References

21 June 1956, NZ Gazette No 35, page 817

1 June 1961, NZ Gazette No 36, page 781

## 3. Purchaser

Valetta Irrigation Co-operative Society Ltd

<b>4.</b>	<b>Effective Date</b>	<b>1.7.89</b>
<b>5.</b>	<b>Date of Purchase</b>	<b>29.10.90</b>
<b>6.</b>	<b>Date of Financial Statement</b>	<b>31.3.93</b>

<b>Amount of Settlement (\$)</b>		
<b>7.</b>	· <b>Purchase price paid for the assets</b>	<b>70,000</b>
<b>8.</b>	· <b>Water rates revenue refunded</b>	<b>0</b>
<b>9.</b>	· <b>Other payments by the Crown</b>	<b>0</b>
<b>10.</b>	· <b>Net Settlement by Purchaser</b>	<b>82,316</b>
<b>11.</b>	<b>Debtors transferred to Purchaser (\$)</b>	<b>0</b>

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>	
12. · <b>Historic Capital Cost</b>	<b>341,673</b>
13. · <b>Accumulated Liabilities</b>	<b>521,062</b>

14. **Liabilities Retained by the Crown**

All construction costs, construction agreements and land entry agreements relating to the scheme prior to 7.7.90, the enactment date of the Irrigation Schemes Act 1990.

# Waimea East

## 1. Description

The Scheme draws water from the Wairoa River to irrigate 1,007 hectares of land mainly for horticulture at Richmond near Nelson. An intake on the east bank of the River pumps water to a reservoir of 3,000 cubic metres capacity. Some water is pumped from the intake directly into the distribution system. Orchards receive a continuous supply of 33 to 38mm per week at the pressure of approximately 300kPa. The flow rate depends on whether trickle or spray methods of irrigation are used. The water supply commenced in 1984.

Funding was provided under the 1975 amendment to the Public Works Act 1928 with a 100% grant for headworks and a 50% grant for distribution works. A 10-year suspensory loan for orchard development was available for 10 years from the date the water supply commenced. The loan paid 50% of the costs of reticulating orchards. The loans are available until 30 June 1994.

## 2. Previous Gazette References

27 May 1982, NZ Gazette No 56, page 1685  
3 September 1987, NZ Gazette No 149, page 4163

## 3. Purchaser

Waimea East Irrigation Company Ltd

4.	<b>Effective Date</b>	<b>4.7.90</b>
5.	<b>Date of Purchase</b>	<b>10.7.90</b>
6.	<b>Date of Financial Statement</b>	<b>30.10.92</b>

<b>Amount of Settlement (\$)</b>		
7.	· <b>Purchase price paid for the assets</b>	<b>0</b>
8.	· <b>Water rates revenue refunded</b>	<b>173,408</b>
9.	· <b>Other payments by the Crown</b>	<b>85,000</b>
10.	· <b>Net Settlement by Crown</b>	<b>190,669</b>
11.	<b>Debtors transferred to Purchaser (\$)</b>	<b>12,257</b>

<b>Assets &amp; Liabilities of the Crown before Settlement (\$)</b>	
<b>12.</b>	<b>· Historic Capital Cost</b> <span style="float: right;"><b>4,913,160</b></span>
<b>13.</b>	<b>· Accumulated Liabilities</b> <span style="float: right;"><b>539,147</b></span>
<b>14.</b>	<b>Liabilities Retained by the Crown</b>
	None

# Source of Financial Information

## Source of financial information

The financial information in this report has been prepared by the Ministry of Agriculture and Fisheries 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 accounts prepared by MAF for presentation and reasonableness of the accounting treatment.

## Accounting by the Crown

The Crown's irrigation assets and liabilities were not recorded in the Crown Accounts during the management of the assets by the Ministry of Works and Development 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 covered 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

<b>Purchased as</b>	<b>Crown Scheme</b>	
Amuri Plains	Waiiau 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	1
Valetta	Valetta Farm Settlement	1
Waiaua	Waiaua	2
Waimea East	Waimea East	1
Wolds	Wolds	1
42 Schemes sold	Total number of irrigation schemes constructed	50
1 Scheme not yet sold (Beggs)		

# 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 land 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 derives from 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 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 and 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 a 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
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4. The Process for Disposal of Crown-funded Irrigation Schemes, Audit Office, July 1991
5. Crown Irrigation Schemes Disposal Accountants Statement, Volumes 1 and 2, Ministry of Agriculture and Deloitte Ross Tohmatsu, October 1991 and August 1992
6. Sale of Crown-funded Irrigation Schemes, Report to Parliament, March 1992.
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