

A BRIEF SUMMARY OF THE VARIOUS STRUCTURES OF PRIVATELY OWNED IRRIGATION CORPORATIONS AROUND AUSTRALIA

By Jenni Mattila

Privately owned irrigation corporations around Australia cover almost the entire range of potential legal structures:

- Companies (eg Murray Irrigation, Murrumbidgee Irrigation Western Murray and Jemalong)
- Single Tier Co-operatives (Preston Valley in WA)
- Statutory Trusts are run by irrigators but the assets are owned by the State Government (Central Irrigation Trust S.A.)
- Incorporated Associations (Cressy Longford Tasmania was wound up and returned to State Ownership)
- Private Irrigation Districts “PIDs” (e.g. Corurgan, Moira, Hay and Narromine incorporated originally under the NSW Water Act 1912 and now Water Management Act 2000) are run by irrigators but the assets are owned by the State Government
- Two tier Co-operatives (Coleambally, Harvey Water, Ord, Gascoyne and Pioneer Valley)

Other than Statutory Trusts and the PIDs in general all other privately owned irrigation entities have converted from existing Government owned schemes to local irrigator ownership since the 1995 CoAG agreement. Syndicates are unincorporated.

The Common Characteristics of Irrigation Corporations

Irrigation corporations may be large or small but they are all incorporated and members and their boards have limited liability. Incorporation is important as there are potentially significant liabilities in operating irrigation infrastructure or for that matter any business operation.

Privatised ICs are required and structured to make financial provision for the long term asset maintenance of their systems. That is, the irrigators themselves fund their continuing operation, not State Treasuries. Money raised by ICs is spent, asset maintenance and renewals as well as the provision of adequate sinking funds.

Possibly the single biggest benefit from that licence arrangement is that it gives the ICs the opportunity to collectively obtain and use all irrigators financial contributions for the best benefit of shareholders without needing to resort to government or commercial lenders for funds. Funds raised from irrigators are spent on the irrigation scheme and irrigators can see where their dollars are spent. As a result irrigators are far more willing

to accept the full cost recovery as they obtain the direct benefit of the use of their own funds.

All charges and contributions are transparent and there are no cross subsidies. Contributions and charges are set using a transparent process and contributions for sinking funds are raised on an actuarial basis. Irrigation assets usually have lives of 40 years and it is crucial to forward projections of asset maintenance and renewals so the funds are available at the right time to undertake the work when required.

Banks do not lend on holes in the ground so it is important for ICs to establish and maintain an adequate sinking fund based on the asset register and asset lives.

ICs are private enterprise organisations which are customer focussed, energetic, lateral and forward thinking, flexible, nimble, self reliant, self responsible and self funding.

ICs are successful businesses and demonstrate the significant benefits of local and regional ownership, funding and control of assets and services which are critical to the future of those regions.

There will be no bulk entitlement to the ICs in Victoria

Water rights in Victoria are held directly by the irrigators and that will not change.

In ICs outside Victoria, the Bulk Water Licence (BWL) is held from the State government, which provides access to water from nominated sources, and is provided to the managing entity which therefore holds legal title to the water. The irrigators hold a **tradeable beneficial right** to the water entitlements. ICs pay for the bulk entitlement on an annual basis from State Governments and administration. Individual irrigators in companies and co-operatives obtain their access to irrigation water by means of shares in the company/co-operative and a share in the total BWL which gives them an equitable entitlement to water

ICs have found that the BWL places them in a stronger bargaining position with Government when changes that are detrimental to irrigator members are proposed by Government. It is easier to negotiate as a group than on an individual farmer basis.

Why the local support for irrigator ownership?

State owned water corporations cannot, at the present time, guarantee that money raised by way of irrigation charges, will be spent on irrigation infrastructure when required.

Irrigation infrastructure has been allowed to deteriorate over time as funds raised from irrigators cannot be guaranteed to be spent on the infrastructure when required.

Until the last few years maintenance and renewals for rural water infrastructure did not rate in most States as a priority – the emphasis of the present expenditure is not on saving water for irrigation but water for the environment and for town water.

Historically money raised from irrigators was paid directly or by way of dividend to State Treasuries. In 1997, Coleambally Irrigation when still in State Government ownership, was forced to pay a dividend to State Treasury of \$17.6million – its entire sinking fund. The pressure it put on Coleambally's infrastructure renewal program was only relieved when Coleambally moved to local irrigator ownership in 2000.

Can Irrigators run Irrigation Assets and business successfully?

The two most successful internationally benchmarked irrigation schemes in Australia – Harvey Water and Coleambally Irrigation are both run by grower elected boards with professional management teams. They are both two tier co-operatives who inherited State government assets at the end of their useful lives and have worked hard to raise the funds to reconstruct rundown infrastructure and take it to world standard.

All board members are required to undertake the Australian Institute of Company Directors Course and to attend conferences and training on corporate governance and the irrigation industry each year. Board members are elected by growers not appointed by Government. They represent the interests of growers in ensuring that the IC provides the best service and price to irrigators consistent with the long term financial viability of the IC and its assets. The board is also directly accountable to irrigators and must ensure that infrastructure is maintained and renewed in a timely manner.

Irrigation Companies

1. Murray (MIL) and Murrumbidgee Irrigation (MI) are the two largest private irrigation companies in Australia.
2. MIL and MI have not historically paid dividends or issued bonus shares to irrigator shareholders. However both have changed their constitutions to allow for non customer shareholders.
3. All irrigator companies operate significant sinking funds for future asset maintenance and renewal.
4. In most other ways they operate on the same basis as a traditional company.
5. The constitutions of Western Murray and Jemalong provide that all shareholders must be irrigators, they do not pay dividends or issue bonus shares and they hold appropriate levels of sinking funds commensurate with their infrastructure profile.

Single Tier Co-operatives, and PIDs

1. Usually have relatively limited amounts of infrastructure and comparatively low needs for asset maintenance and renewals.
2. Operate on the basis of maintaining adequate cash reserves to cover day to day costs.

Incorporated Associations

1. Incorporated associations are not permitted to run trading entities therefore cannot operate an irrigation management entity.
2. An incorporated association usually has tax issues because of its inability to trade and the difficulty in holding sufficient sinking funds to allow it to be a significant asset holder.

Two Tier Irrigation Co-operative (co-operative+mutual) Structure

- 1 The management co-operative is a water service provider which operates the irrigation system for the purpose of delivering water to growers.
- 2 The mutual raises contributions through a sinking fund for the maintenance and renewal of the irrigation infrastructure. The mutual contributions are proportional to the water entitlements. Depending on the irrigation scheme the Mutual either currently owns or will own in the future the irrigation infrastructure.
3. The sinking funds have a 50-100 year profile, members pay for their own wear and tear on the scheme they do not leave an unfunded debt for future generations.
- 3 Where the mutual owns the infrastructure it licences the use of the infrastructure to the management co-operative to deliver the members water entitlements.
- 4 The mutual does not trade and neither entity is a subsidiary of the other.
5. The aim is to isolate the infrastructure and sinking funds from business risk arising from the management co-operative. The mutuals are self funding and do not borrow therefore there is minimal risk to members and their water entitlements within the structure.
- 6 Two tier structures are an efficient stable financial structure where there are significant costs associated with infrastructure.
7. Two tier structures do not pay dividends or bonuses to irrigator members.
8. The management co-operative can sell water it owns itself to non-members – “contract water”. These non-member customers are usually hobby farms or in some cases one off requirements for industrial use.