

Brave new world for irrigation funding

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Large-scale irrigation in New Zealand began in the late 19th century. Up until the late 1980's numerous irrigation schemes were developed by central government. The rationale for government funding for irrigation schemes changed over the years but essentially it was based on a recognition that irrigation was beneficial to both the local and national economy by promoting more efficient use of land and water resources. In the 1990's the focus shifted to private development of irrigation schemes but central and local government still played a role, providing grants to promote the development of schemes. More recently, government's contributions have been managed by Crown Irrigation Investments Limited (CIIL), a special purpose entity set up in 2013 with a mandate to "enable the development and construction of off-farm regional irrigation infrastructure where the company identifies irrigation scheme proposals that have the potential to generate long-term economic benefits from irrigation for New Zealand".

The Labour led government elected in 2017 has announced that it proposes to abolish subsidies for irrigation. The announcement does provide that CIIL can continue to honour its existing commitments. The Ministry for Primary Industries and CIIL have undertaken a review of the schemes CIIL have been involved with and are awaiting decisions from the ministers as to what government support, if any, will be available for any new or existing schemes going forward.

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The model adopted for most recent regional irrigation schemes is based on a cooperative ownership. The farmers or other land owners (including in some cases local government where the irrigation scheme is intended to also augment the supply of town supply water) establish an entity to design, fund, construct and operate the scheme. In most cases the majority of the funding comes from a combination of equity raised from the users of the scheme and bank financing. Debt service costs are covered from the water charges paid by the scheme users. CIIL's funding has generally been limited to initial grants to assist with scheme establishment and debt funding where third party commercial financing is not available.

If grants or debt funding are no longer going to be available from CIIL or other government entities, it does not mean that irrigation schemes will not be developed. Commercial, political and environmental incentives to optimise water resources and the productivity of farm land will not be any less and, if climate change accelerates, the incentives may become more compelling. This will drive creativity in the funding structures for development of irrigation schemes. The current cooperative model is not broken but, without government grants or subsidies to assist in funding the up front development costs (which are not insignificant), the water users will need to contribute a larger amount of 'risk capital' at the early stages of development which in turn will make projects harder to get started and might affect the overall economic viability of some schemes.

Alternative models for development of irrigation schemes could help to solve some of these problems. For example, local government may choose to support a scheme if there are clear advantages for its region. Or a scheme could be developed by a commercial sponsor instead of a cooperative, with water users paying a higher water use charge but having no requirement to contribute equity. Under such a structure the water charges would need to be set at a level sufficient to ensure that the sponsor not only covered its costs but earned an appropriate commercial return on its investment to reflect the risks that it is taking. Although this model would mean that the water users are paying more for their water, if the on farm gains available to the irrigators are sufficient, it may still be economic. Once the scheme is constructed and operational and the risk profile has been reduced, the sponsor could potentially offer shares in the scheme owning vehicle to the farmers or to the market.

There are a variety of other examples of ownership and financing structures that have been used in New Zealand and internationally to finance the development of infrastructure projects. The basic principles are equally applicable to irrigation schemes. With the change in government policy for funding irrigation, the industry will no doubt be exploring all of these options as the pressing need to continue to optimise productive land and to efficiently use scarce water resources have not changed.

This article was written by Peter Owles for the NBR (March 2018).

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