SALE OF CROWN-FUNDED IRRIGATION SCHEMES
Report to Parliament
MARCH 1992
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.

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 approximately 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
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.

The Galloway Irrigation Scheme is supplied from two main sources. Water to the Galloway Flats is pumped 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.

Galloway Irrigation Society Incorporated

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.

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
Eiffelon Community Group Irrigation Scheme Incorporated

4. Effective Date 20.10.90
5. Date of Purchase 2.7.91
6. Date of Financial Settlement 2.7.91

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

Assets & Liabilities of the Crown before Settlement ($)
12. Historic Capital Cost 622,497
13. Accumulated Liabilities 50,870
14. Liabilities Retained by the Crown Nil

GLENMARK 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 1 km to two head tanks then reticulated to orchards.

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

4. Effective Date 1.10.89
5. Date of Purchase 27.9.90
6. Date of Financial Settlement 19.4.91

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

Assets & Liabilities of the Crown before Settlement ($)
12. Historic Capital Cost 610,660
13. Accumulated Liabilities 128,217
14. Liabilities Retained by the Crown Nil

GLENBROOK IRRIGATION SCHEME

1. Description
The Glenbrook 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:


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-IDA BURN 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 distributary 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 2000ha 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
RANGITATA DIVERSION RACE

1. Description
The Race presently supplies water to three irrigation schemes with a gross command area of 68,000 ha for hydro generation at two power stations, stock water 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

4. Effective Date
1.7.89

5. Date of Purchase
29.10.90

6. Date of Financial Settlement
3.8.91

Amount of Settlement ($)
7. Purchase price paid for the assets
550,000

8. Water rates revenue refunded
565,914

9. Other payments by the Crown
0

10. Net Settlement by Crown
131,784

11. Debtors transferred to Purchaser ($)
0

Assets & Liabilities of the Crown before Settlement ($)
12. Historic Capital Cost
2,805,389

13. Accumulated Liabilities
409,469

14. Liabilities Retained by the Crown
Nil

RABBUTTS 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

4. Effective Date
15.9.89

5. Date of Purchase
12.11.90

6. Date of Financial Settlement
29.5.91

Amount of Settlement ($)
7. Purchase price paid for the assets
1

8. Water rates revenue refunded
43,191

9. Establishment Grant
8,000

10. Net Settlement by Crown
42,056

11. Debtors transferred to Purchaser ($)
0

Assets & Liabilities of the Crown before Settlement ($)
12. Historic Capital Cost
632,942

13. Accumulated Liabilities
6,958

14. Liabilities Retained by the Crown
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 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 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 to 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

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<tr>
<th>Purchased as</th>
<th>Crown Scheme</th>
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<tr>
<td>Amuri Plains</td>
<td>Waiau Plains, Waiakeara</td>
</tr>
<tr>
<td>Arrow</td>
<td>Arrow River</td>
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<tr>
<td>Ashburton-Lyndhurst</td>
<td>Ashburton-Lyndhurst</td>
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<tr>
<td>Bannockburn</td>
<td>Bannockburn</td>
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<tr>
<td>Beggs</td>
<td>part of Ardgour</td>
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<tr>
<td>Blackstone</td>
<td>part of Omakau</td>
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<tr>
<td>Burn Cottage</td>
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<td>Earnsleugh/Blackmans</td>
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<td>Hawkdun and Idaburn</td>
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<td>Kerikeri, Puketotara, and Kapiro Pungaere</td>
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<td>Luggate Creek</td>
<td>(mining rights previously leased)</td>
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<td>Maerewhenua</td>
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<td>Valetta Farm Settlement</td>
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41 Schemes sold
2 Schemes not yet sold (Beggs, Puikerimu)

Valuing the Irrigation Schemes

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 are sold as separate entities, though some might 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 are the 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 irrigation schemes constructed by the Crown as separate legal entities may have been combined for the purposes of sale.

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