



LEVEL A

CANEGROWERS BUILDING
120 WOOD STREET
MACKAY QLD 4740

PO BOX 275
MACKAY QLD 4740

PHONE (07) 4957 8481
FAX (07) 4957 8038

pvwater@pvwater.com.au
www.pvwater.com.au

21 March 2013



Agriculture, Resources and Environment Committee
Parliament House
BRISBANE QLD 4000

Dear Sirs

RE: Land, Water and Other Legislation Amendment Bill 2013

This submission to the *Land, Water and Other Legislation Amendment Bill 2103 (LWOLA Bill)* is from Pioneer Valley Water Board which is a Water Authority based in Mackay. It supplies irrigation water to some 250 sugar cane farms in the Pioneer Valley.

Our submission deals specifically with Part 19 (Clauses 234 to 247) and Part 20 (Clauses 307 to 343) of the *LWOLA Bill*. These relate to amendments to the *Water Act 2000* and the *Water Supply (Safety & Reliability) Act 2008* concerning the conversion of water authorities to two tier co-operative structures.

Pioneer Valley Water Board (PVWB) is fully supportive of the proposed amendments to these Acts as they are hopefully the final piece in a very long process to move the PVWB irrigation scheme into the ownership of the benefitting irrigators. This process commenced in 2004 with a request to the Queensland Government to dissolve PVWB for conversion to an alternative institutional structure (two tier co-operative) under the *Water Act 2000*.

Since 2004 there have been extensive negotiations between PVWB and Government over a number of aspects of the process particularly as PVWB is the first water authority in Queensland to embark on the move to local ownership. A brief summary of these negotiations is presented later in our submission.

In 2010 it was identified that the authorisations for infrastructure operation (Distribution Operations Licence (DOL) under the *Water Act 2000* and Water Service Provider Registration (WSP) under the *Water Supply (Safety & Reliability) Act 2008*) conflicted with the two tier co-operative structure. The present legislation requires that the owner of the infrastructure must hold both authorisations while, in the two tier structure, the infrastructure owner is a mutual co-operative, and as such does not trade or operate a business. Infrastructure operation is by a trading co-operative under an agreement with the infrastructure owner. Further details of the two tier co-operative structure for an irrigation scheme are provided later in our submission.

The proposed amendments are a logical method to address the two tier arrangement by allowing for a nominated entity of the infrastructure owner to hold the DOL and for a prescriber related entity to be registered as the WSP.

The following provides some further background information on PVWB and the move to convert to a two tier co-operative structure.

History of Pioneer Valley Water Board

PVWB was established in 1996 to build and operate the irrigation scheme which has a current written down value of \$32 million (\$2013). Funding for the scheme was provided substantially through a contribution of \$11 million from Mackay Sugar Limited. In addition to the Mackay Sugar Limited contribution, a loan was taken out by PVWB of \$7.5 million. The loan is being paid off through water charges raised on the irrigators in the scheme. Water charges in the scheme also cover full administration, operation and maintenance of the scheme and provide for a sinking fund for the future renewal and replacement of assets.

When PVWB was formed in 1996, a statutory authority was the only structure available to the local community to establish the irrigation scheme. Further, the scheme was part of the Teemburra Dam Project and Federal and Queensland Government approval for the Project required that a water authority be formed as the vehicle to raise the local community funding contributions. The Pioneer Valley irrigation community had no alternative other than formation of a statutory body to establish the irrigation scheme that was desperately required following the disastrous drought period of the early 1990's

With major reform of water legislation in Queensland under the *Water Act 2000* it became possible for statutory water authorities such as the PVWB to be dissolved for conversion to an alternative institutional structure. With the scheme being totally funded locally, the PVWB closely examined the new provisions under the *Water Act 2000* and identified that a move to a co-operative structure would be appropriate. A two tier co-operative structure was selected as it offers the most financially efficient regime for a private irrigation corporation and has been very effective for irrigation schemes in other Australian States that have moved away from Government ownership.

Two Tier Co-operative

The two tier co-operative structure involves an asset owning mutual co-operative and an irrigation business operating co-operative with specific functions as follows.

Pioneer Valley Water Mutual Co-operative (PVMutual) will own all irrigation infrastructure and will be responsible for all funding for the infrastructure including construction, maintenance and refurbishment. As a mutual this entity will only be taxed on interest earned and not on any member contributions. This is significant as PVMutual will build substantial reserves from member contributions for future renewals which could otherwise be viewed as large operating profits. Also under the two tier structure the assets are protected from any actions if the business operating entity fails.

Pioneer Valley Water Co-operative (PVWater) will run the irrigation scheme under an agreement with PVMutual. This co-operative will hold the scheme group water allocation. This entity as a private business will be taxed on its operating profit. To preserve the mutuality for the asset ownership, this Co-operative must be completely separate from the Mutual Co-operative.

Irrigators in the scheme will be members of both PVMutual and PVWater but will have business dealings only with PVWater. PVWater will raise water charges for both the operation of the business and for asset maintenance and renewal and will pass the latter funds to PVMutual.

The two tier co-operative structure has been adopted for the Coleambally Irrigation Scheme in New South Wales and the Ord, Harvey and Gascoyne Irrigation Schemes in Western Australia. These entities have operated very successfully since 2000.


PVWB Conversion process

In 2004 a request was submitted to Government by PVWB for its conversion to a two tier co-operative structure under the *Water Act 2000*. The following is a brief summary of the process that PVWB has been through since the initial conversion request.

- PVWater was formed in 2005 to meet the *Water Act 2000* requirement that the new entity had to be formed prior to dissolution of PVWB. PVMutual could not be formed at that time due to lack of clarity of the specific legislation requirements for the transfer of assets.
- In 2006 PVWB presented a detailed Business Case including substantial financial modelling to Government for the proposed two tier co-operative
- The *Water Act 2000* was amended in 2008 to allow for water authorities to convert into two or more alternative institutional structures. The legislation previously only provided for conversion to a single new entity.
- In 2009 the Webbe/Weller Review of Government Bodies recommended abolishment of water authorities (PVWB) and transfer of functions to local management arrangements. This Review also recommended waiver of any transfer duties that may be applicable to moving from Government to private ownership.
- The *Water Act 2000* was amended in 2010 to incorporate Webbe/Weller recommendations including the waiver of State taxes for anything done in relation to the dissolution of a water authority
- In 2010 lengthy negotiations commenced with Government over the Distribution Operations Licence and Water Service Provider Registration for the two tier co-operative structure. This was to ensure that these licensing arrangements would reinforce clear separation between the two co-operatives to preserve the mutual status for the asset ownership.

Thank you for the invitation to provide this submission into the inquiry by your Parliamentary Committee. We would welcome the opportunity to provide any further information that may be required and would be available to attend at the public hearing on 12 April 2013.

Yours sincerely



J R Palmer
MANAGER