

IRRIGATION RISK MANAGEMENT – MANAGING A CHANGING WATER ENVIRONMENT

Daryl Poole

Farm Management Consultant, RMCG, Bendigo

Take home messages

- **Access to irrigation has seen northern Victoria and southern NSW grow to be the largest dairy region in Australia**
- **Irrigation is a form of risk management with water policy reforms moving the goal posts. The new information can be very confusing.**
- **We need to understand these reforms to allow us to manage it better**

Risk management

Access to a reliable and affordable water resource has seen the dairy industry in northern Victoria and southern NSW grow to be the largest dairy region in Australia, producing 25% of nation's milk. In the past, irrigation businesses in Northern Victoria had access to their Water Right plus 100% sales allocation more often than not, and the need for irrigation risk management strategies was minimal.

However, recent years of low allocations due to below average rainfall, combined with changes in water policy has emphasized the need for irrigation businesses to implement effective irrigation risk management strategies to ensure their long-term success.

A useful definition of risk management is “The identification, assessment and control of those risks that threaten the assets or earning capacity of the organisation”.

As with every decision we make in life there is a consequence, sometimes an up side and sometimes a down side. Risk management is about trying to foresee the risks associated with decision making to maximize the upside while minimizing the potential downside.

Irrigation in itself is a form of risk management, as irrigation water is used to maintain pasture and crop growth when natural rainfall is limiting. However, in northern Victoria and southern NSW with an average rainfall of only 400 mm/yr, dairy farm businesses are highly reliant on irrigation to sustain pasture and crop growth.

Water policy reform has moved the goal posts and irrigation businesses will need to fully understand how the changes will impact on their businesses so that they can make effective decisions for their future.

To help irrigation businesses to make effective decisions about their irrigation water resource they need to be able to answer the following questions:

1. How much water does my business need?
2. How will changes to water policy impact on the volume of water available to my business?
3. Over the long term, how often will I be short of water?
4. Over the long term how much will it cost me to trade in temporary water?

5. Over the long term am I better off owning water or trading water?

The irrigation risk workshop at this conference will provide a framework that will help you answer the above questions for your business.

Improved information – Water policy reform

Water policy reform has created a high level of anxiety for irrigators, as they have been uncertain about what the changes will really mean to their business. During the process of reform there has been a range of possible outcomes that may or may not happen. This has contributed to the uncertainty and made it impossible for businesses to make informed and effective decisions about their water resource.

No one can predict the future so there will always be a certain level of uncertainty especially when there are significant changes to the operating environment. However, water policy reform has progressed to a point now that we have access to much more information that will allow us to start to make some assessments on what it all really means to our irrigation businesses. This reduces some of the uncertainty that can allow for decisions to be made with confidence.

We now have information about:

- Delivery shares
- Annual delivery allowance
- Casual infrastructure use fee
- Exit fees
- The amount of high-reliability water shares (water right) and lower-reliability water shares (sales) that an irrigator will receive after unbundling of water entitlements.
- Water-use licences

All of the above terms are new and can be very confusing and for many irrigators it can be difficult to pull it together to make sense of it all.

An important part of implementing effective irrigation risk management strategies is to better understand what all the changes mean. To improve understanding, at the workshop case study farms will be used to illustrate what the changes mean at the farm level.

Daryl Poole has worked in the dairy industry in northern Victoria for 12 years spending time in both the private and public sectors. In his current employment at RM Consulting group he has been heavily involved in water issues specifically looking at how farm businesses can best respond to a changing environment.

Daryl works and lives Echuca and is passionate about helping farm family businesses achieve their goals.