Murrumbidgee Irrigation

# 2020 Annual Report

# Murrumbidgee Irrigation Limited 2020 Annual Report

**ABN 39 084 943 037**

This report is available electronically on the Company website
www.mirrigation.com.au/company/annual-reports

Murrumbidgee Irrigation Limited (MI) is focused on growing our future together with customers and the community. Our aim is to enable regional productivity through irrigation by delivering water in the best way possible.

## 2020 AGM

The 22nd Annual General Meeting of shareholders will be held on Monday 9 November 2020. It will be held at the Bagtown Motor Inn, Griffith with registrations from 1.30pm and the AGM to run from 2pm to 5pm.

We note that the event will be held in accordance with COVID-19 restrictions and shareholders will be kept advised should there be any need to amend arrangements closer to the date.

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# MI at a glance

## General information

| | Measure | 2019/20 | 2018/19 | 2017/18 |
|---|---|---|---|---|
| Total area of MIA | *ha* | 378,911 | 378,911 | 680,500 |
| Company water licences | *ML* | 1,086,164 | 1,103,659 | 1,115,229 |
| Total delivery entitlements in issue | *Number* | 1,236,037 | 1,221,511 | 1,171,297 |
| Landholdings | *Number* | 3,093 | 3,260 | 3,276 |
| Total area of irrigated crops | *ha* | 47,203 | 89,917 | 140,992 |
| Employees (equivalent full-time, including externally funded) | *Number* | 148 | 157 | 181 |
| Lost time injury frequency rate | *I/MH* | 7.3 | 6.6 | 9.4 |

## Financial

| | Measure | 2019/20 | 2018/19 | 2017/18 |
|---|---|---|---|---|
| Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) from normal operations | *$'000* | 2,781 | 3,956 | 11,493 |
| Government revenue | *$'000* | 24,052 | 75,244 | 103,427 |
| Net assets | *$'000* | 580,573 | 587,728 | 576,788 |
| Asset reserve (book value) | *$'000* | 51,236 | 51,236 | 51,236 |
| Asset renewal capital expenditure | *$'000* | 4,033 | 8,772 | 6,529 |

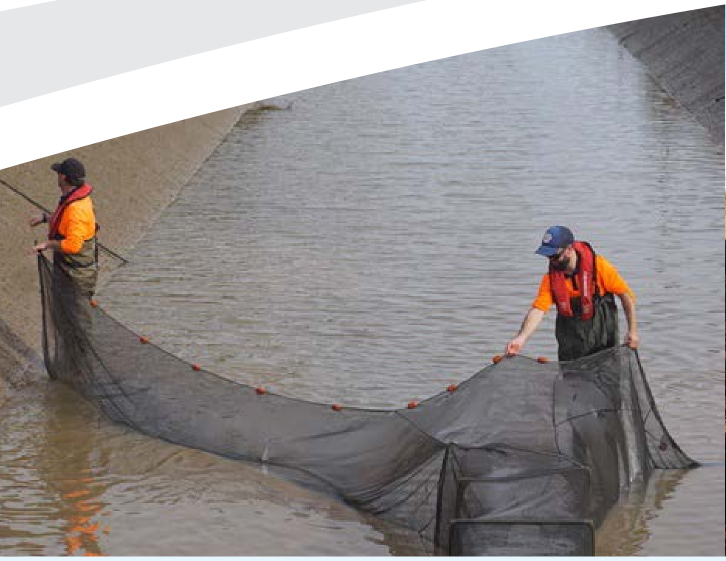
## Water summary

| | Measure | 2019/20 | 2018/19 | 2017/18 |
|---|---|---|---|---|
| Carryover from previous year | *ML* | 22,112 | 129,520 | 242,383 |
| Govt. announced allocation (all licences) | *ML* | 481,563 | 467,805 | 714,109 |
| Temporary transfers into MIA | *ML* | 143,319 | 75,042 | 189,525 |
| Supplementary flows from river | *ML* | 11,377 | 0 | 12,288 |
| Total water delivered (all licences, inc. surplus flows) | *ML* | 349,525 | 588,287 | 947,407 |
| Temporary transfers out of MIA | *ML* | 194,138 | 63,241 | 82,981 |
| Carryover into following year | *ML* | 114,710 | 22,112 | 129,520 |

| | Measure | 2019/20 | 2018/19 | 2017/18 |
|---|---|---|---|---|
| **Allocations** | | | | |
| Special purpose High Security (Towns, S&D) | *% of entitlement* | 100% | 100% | 100% |
| High Security | *% of entitlement* | 95% | 95% | 95% |
| General Security | *% of entitlement* | 11% | 7% | 45% |
| Additional Water[1] | *ML* | 18,970 | 29,447 | 37,430 |

*Note: 1. For eligible customers who hold more than 250 Delivery Entitlements (DEs) and issued as a proportion of DEs*

# Year in review



## July

**Balancing operational requirements with environmental outcomes** working with the Narrandera Fisheries to successfully relocate hundreds of native fish.

## August

**Modernisation works** received final touches for their critical role in enabling us to maximise the benefits of the projects already completed across the MIA.

## September

**Counting every drop** via an audit of unmetered outlets across our area of operations to better understand how and where water is being used.

## October

**Announcement of first allocation enhancement** as a result of efficiency savings from operations across the MI system. By March 2020 a total 2% enhancement had been announced despite low allocations.

## November

**Measuring flow rates in channels** through a series of experiments to help us count every drop and provide data to drive lower costs, greater flexibility, improved productivity and water savings.

## December

**Water continued to flow** in the MIA as the nation's attention was diverted from drought by worst bushfire season ever seen. It ended up being the strongest month for water deliveries for the year with over 59,238 ML delivered to customers for their crops.

## January

**Customer donated water delivered** to drought affected communities in Far West NSW with 28 ML going to families around Tibooburra, Milparinka and Silverton, who were out of water.

## February

**New Federal water Minister, Keith Pitt** was hosted by MI to give him an understanding of how the MIA system works and our water needs.

## March

**Next stage automation arrived** and testing with customers demonstrated that it provides timely deliveries, at any time of day with no need for an MI person to be on-hand, and showed the ease of ordering that it enables.

## April

**Nominated by the NSW Government as an essential service**, MI pivoted to ensure neither safety nor water delivery were compromised in the face of the COVD-19 pandemic.

## May

**Stage 2 of the Lake View Branch Canal (LVBC)** expansion project commenced with upgrades to regulators, bridges and escapes as a result of customer interest in increasing the capacity of this system.

## June

**MI's integrated network** was put to good use allowing us to maximise water available from a Surplus Water Event delivered to customers across the MIA despite a very limited timeframe.

# Chair's report

At our core, MI is all about setting the direction for a strong and competitive MIA by delivering fairly priced services in an efficient and timely manner. FY20 has been marked by leveraging the benefits of the investment and effort of recent years.

We have invested heavily in infrastructure upgrades, automation and technology to deliver water as efficiently as possible. Some of this work entailed difficult decisions and required a new way of thinking on behalf of our people and customers. However, we are now seeing the benefits of this investment, putting customers in the position of being able to maximise every drop of their water.

Ongoing water policy challenges have seen MI continue to contribute to the policy discussion around the allocation of water and the governance of its distribution, including through briefings with key decision makers such as the incoming Water Ministers at State and Federal levels.

We have provided submissions to the seemingly endless number of water policy reviews including the Keelty Review and the ACCC review of water markets. We have also been active in advocacy around the importance of progressing and achieving the Sustainable Diversion Limits projects and raising our concerns about the scale of the impacts to Murrumbidgee irrigators if they are not successful.

The Board is focused on delivering value to our shareholders through efficiencies, sound financial governance and prudent investment decisions about our network. Every bit of conveyance water or dollar in expenditure saved represents a direct gain for our customers through more productive water available and lower cost service delivery. Just as irrigators are continually being asked to do more with less, so must MI offer high levels of service at the most reasonable price possible.

At our last AGM, shareholders approved a change to the Constitution to amend the eligibility criteria for member directors to extend the pool of eligible directors. We believe that this change will support a strong succession plan for the Board, ensuring that we continue to attract high calibre individuals with the appropriate mix of skills and experience.

Lastly, I would like to welcome those directors confirmed at the November AGM including Michael Carter who was appointed as an Independent Director for a three-year term; as well as A Class Member Director Tracey Valenzisi and returning B Class Member Director Hayden Cudmore. Collectively, they bring a great mix of skills, experience and diversity to the Board.

**Nayce Dalton**
Chair

# CEO's report

The FY20 year has seen MI step up to meet the needs of our customers in a professional and agile manner. As flagged by the Chair, MI has realised many gains of the recent years of modernisation and automation of our delivery system with the switching on of automation.

Looking ahead we seek to continue to leverage our modernised systems to drive efficient operations and to partner with our customers by identifying projects and areas where we can deliver further efficiency gains for them. This approach is underpinned by enabling our people to drive business improvements, embrace innovation and use data to respond proactively thereby delivering excellence in customer service.

Irrigators of the future will need to be nimble to respond to available water as well as climatic and market conditions. The reality is that water availability for productive purposes is likely to become ever more challenging and face ongoing community scrutiny. MI has a crucial role to play in enabling irrigators to make the most of every drop of water to which they are entitled.

This means our delivery systems and services must be world class, providing customers with the right amount of water at the right time for their operation. So, if a grower needs to water a crop at 4am only for a six hour period of time, MI needs to deliver. Thanks to the investment in automation and modernisation this is now possible. At the same time, we are able assist with meeting environmental outcomes by achieving water efficiency gains through reduced losses.

As we seek opportunities to more closely partner with customers, we have seen value in our new approach to customer engagement with teams dedicated to working with customers and really developing a good understanding of their businesses and needs. A series of 'kitchen table' meetings has seen customers collaborating with each other, as well as with MI, to arrive at better solutions for the customer, the Company and the community.

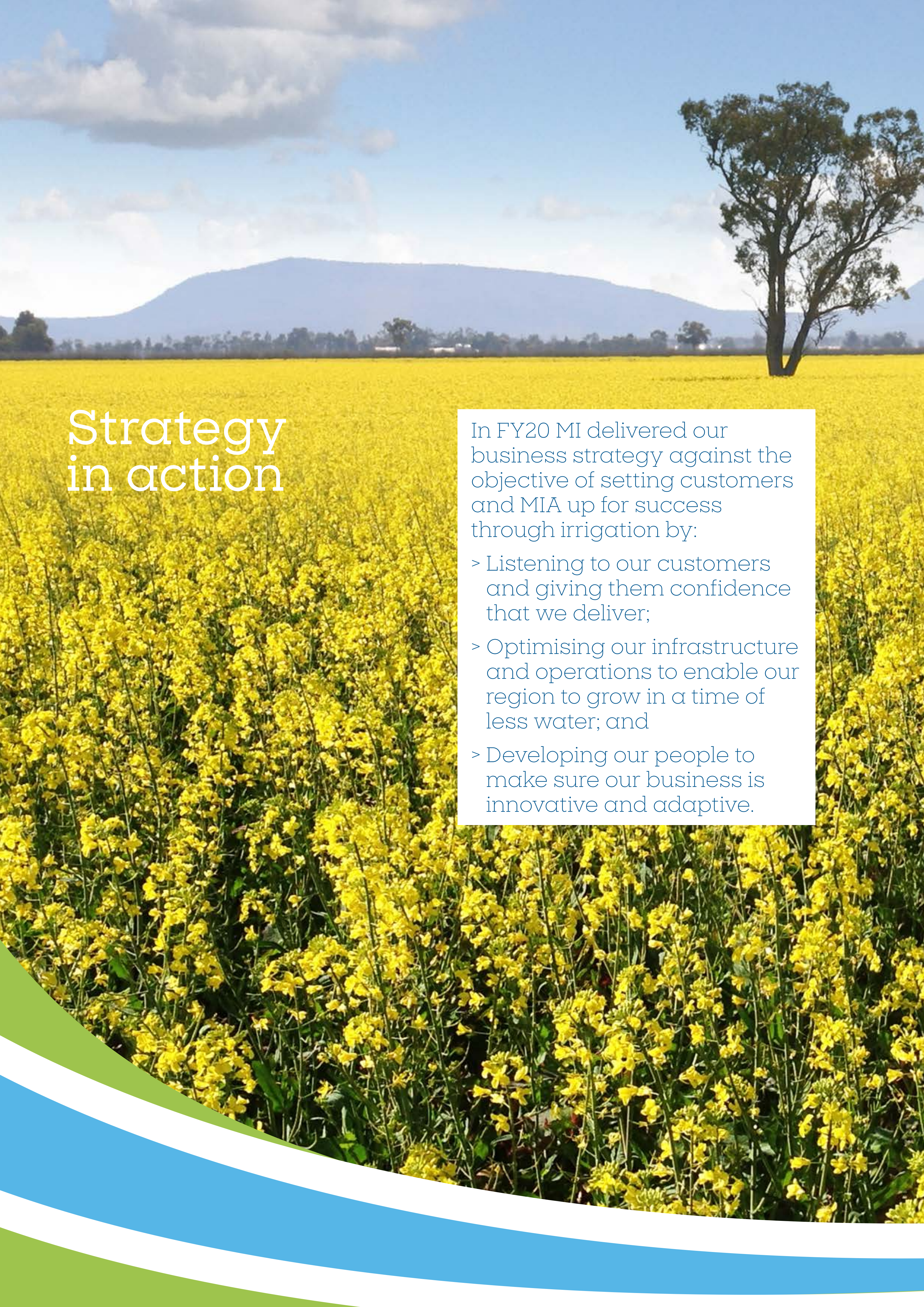
In addition, our increased focus on customer communications has seen initiatives to reach all of our customers using a variety of tools to suit a range of preferences for receiving information. This is delivering results by providing easier access to information about the Company which in turn provides greater transparency and enables us to hear a diverse range of feedback and points of view.

FY20 saw the second lowest water deliveries in the last 20 years. Despite the low deliveries, financially the Company was able to achieve a positive earnings result that ensured we continue to meet the ongoing capital renewal funding and keep customer price increases to CPI. Additionally, the Delivery Entitlement charge was decreased for the third consecutive year. The Company is in a strong financial position, able to meet changing water availability whilst ensuring capital renewal continues and costumer charges are kept to a minimum.

I could not report on this year without noting the very significant impact of COVID-19 on our world. Despite the challenging environment caused by the pandemic, MI demonstrated a clear ability to pivot quickly to provide water delivery which was deemed an essential service by government. It is a credit to our people who were quick to adapt to new ways of working, social distancing and balancing the need to continue our operations with the need to ensure the safety of our employees, customers and the community. We will continue to adapt to the changing circumstances surrounding this crisis.

The benefits of our modernised delivery systems can only be realised through the people who operate them and the thoughtful and innovative approach of our MI team has been key to realising the benefits of our system. We will continue to invest in the training and development of our people to enable them to be forward thinking in our approach to meeting customer needs.

**Brett Jones**
CEO & Managing Director



# Strategy in action

In FY20 MI delivered our business strategy against the objective of setting customers and MIA up for success through irrigation by:

- Listening to our customers and giving them confidence that we deliver;
- Optimising our infrastructure and operations to enable our region to grow in a time of less water; and
- Developing our people to make sure our business is innovative and adaptive.

# Customers

## Easier to do business

We have continued to further refine processes and business systems to make it easier for customers to do business with MI. For instance delivering online forms, a new easy to navigate website and adapting to remain accessible to customers even in the face of COVID-19.

## Reducing costs by removing redundant assets

As we modernise our network, we are undertaking a program to remove redundant assets which reduces ongoing maintenance costs helping to keep the price fair for all customers.

## Allocation enhancement

This year, even with low allocations, MI announced a 2% allocation enhancement to eligible MI customers from efficiency savings. We seek to do this each year in order to support productive agriculture in the region and to encourage activities that provide further efficiency savings.

## Temporary Pumping Permit launched

Responding to customers who told us that they sometimes need to access our channel system away from their outlet for filling spray tanks and washing down harvesters, MI launched a Temporary Pumping Permit for this type of access. To operate for one season initially, it will help us better understand the demand for this service.

## Lake View Branch Canal Stage 2

Stage 2 of the Lake View Branch Canal (LVBC) expansion project commenced with works including the upgrade of regulators, bridges, and escapes. The LVBC expansion project is a result of customer interest in increasing the capacity of this system with Stage 1 delivered during the 2019 winter works period.

## Surplus Water Events

Over the course of the year we have been able to facilitate customers' access to water in two Surplus Water Events. Although the water was only available for a limited time, we put our integrated network to good use allowing us to maximise water available for customers across the MIA. This included customers on the Sturt Canal who were able to access the water, even at a time when its offtake was closed.

# Safety

## MI providing an essential service

The NSW Government confirmed that MI provides an Essential Service to the MIA, so we continue to adapt our services and processes to meet the needs of our customers during the crisis.

## Employee and community programs around safety

The importance of our team's safety, health and wellbeing is reflected by a continuous program of internal communications around WHS, mental health, and initiatives such as employer funded diabetes testing, annual flu shots and COVID hygiene.

## Community safety

Being very aware of the way MI infrastructure integrates with public space, MI has a constant focus on managing associated risks, working with Council to align safety messages and measures, and educating the public. Some modernisation works, such as lining of channels and automation of channel flows, present particular issues around safety and are highlighted in our annual TV and radio safety campaigns.

> *"MI really stepped up and worked with us to upgrade our outlets over the last couple of years, delivering improvements which better underpin the productivity and profitability of our farm business."*

MI customer Terry McFarlane said automation of the MI delivery system has made a significant difference to his high value seed crop operation.

# Operations

## Winter Works commence

A full program of winter works this year saw works spread across the entire region including structures on the Main Canal and Sturt Canal, as well as on Lake Talbot, and repairs at Gum Creek Road and Mirrool Creek Escape. We focused on expansion, repairs, and scheduled maintenance, while minimising impacts to water supply for our customers.

## Modernisation works complete

The final touches were put on the final round of the Commonwealth funded modernisation projects which has left our channel system approximately 70 percent automated. These modernisation works have been critical in enabling us to maximise the benefits of the projects already completed across the MIA and we are now actively seeking funding to finish this process under Stage 3.

This is the third year in a row of extensive modernisation works, and they included Lake View Branch Canal, Gogelderie Branch Canal, Mirrool Creek Branch Canal, Yanco Stock and Domestic and Warburn areas.

The works are helping us to respond better to variable allocations by providing greater flexibility in water delivery, as well as consistent flow rates and lower maintenance and operational costs. They involved more automation, some channel lining and structure upgrades. We also installed new, and upgraded, metered farm outlets to be automation ready through the region wide Outlet Program.

## Measuring flow rates in channels

We used specialised ultrasonic instruments to measure the flow rate and understand factors impeding water delivery across our channel network. Remotely sensed data is at the core of the next stage of our technological journey-exploring the data to optimise performance of the delivery systems to benefit customers through lower costs, greater flexibility, and water savings.

# People

## Initial MI response to COVID-19

In response to the COVID-19 pandemic we implemented a series of escalating measures to ensure that we could safely continue to provide our services to the community, albeit being delivered in a different way. These included our Hanwood and Leeton offices operating by restricted access and we closed to customers and visitors other than via appointment.

MI staff present at each office was reduced, with office staff required to work from home where they could and on rotation in the office. Operations crews were separated to minimise physical contact with each other, customers, and other MI staff. Water delivery and maintenance crews also worked on different sites and in alternate rotations.

## Supporting our team's giving

MI is proud to support our employees in their charitable endeavours including annual Cancer Council fundraising and since 2006, the MI team has raised over $22,500 for this important cause. We also support our staff in charity events. A significant one this year being the Active Farmers charity Ride for Resilience, in which our team raised over $10,355 and MI contributed a further $3,291.

# Community

## Facelift provides safer environment for Yanco Village

The Yanco Stock & Domestic modernisation project provided a great opportunity to rescale our operations to meet the changing needs of Yanco Village customers. This was a continuation of the works started in 2018, with the project providing a safer environment for residents through the removal of open waterways and narrow road crossings.

> *"MI has been really great to work with by providing new outlets to enable our on-farm automation. If they hadn't been on board and really working with us, we could not have implemented the systems that we have."*

Robert Houghton, Gogeldrie

## Environment

### Balancing operational requirements with environmental outcomes

We have continued to collaborate with the Office of Environment & Heritage including delivering environmental water in drought periods to support local refuge sites such as Fivebough and Tuckerbill swamps in Leeton and Campbells swamp in Griffith. The delivery of 3,010 ML has helped deliver positive outcomes for important habitats including a bittern refuge.

### Keeping a lid on escape losses

Our escape losses for the month of July were less than 80ML compared to over 1,100ML for the same time last year, which was an excellent result, notwithstanding that it was achieved in a year of significantly lower allocations. It was achieved by using our integrated network, as a result of our modernisation works.

MI Customer, Jeff Emery welcomed expansion works on the Lake View Branch Canal (LVBC)

> *"It's great to see the upgrade and improvement of existing irrigation infrastructure. Irrigation is at the core of the MIA area, so any MI initiatives like the upgrade of the LVBC where further efficiencies are created, are a very welcome addition."*

## Stakeholders

### MDB Inquiry feedback session in Griffith

MI attended the community session in Griffith as part of the Inquiry into the management of Murray-Darling Basin water resources Interim Inspector-General of Murray-Darling Basin Water Resources, Mick Keelty and lodged a submission to the inquiry.

### New Australian Water Minister visits

MI welcomed the incoming Water Minister, Keith Pitt as part of his introductory tour around the Southern Basin to give him an understanding of how the MIA system works and the issues of importance to our customers. We provided Minister Pitt a tour of our new operations room and some of our infrastructure, as well as a visit to a locally significant environmental site, Campbell's Swamp, a recognised bird refuge during drought.

### National Irrigators' Council

MI remains a strong contributor to the National Irrigators' Council (NIC) which provides a respected and aligned voice for Australian irrigators. Through it we have prosecuted a range of issues around the Basin Plan, transparency of water markets and affordable energy. We have been active participants and take a leadership role with MI's delegate being the Deputy Chair of the Council.

### MI resigns from NSWIC

After more than 25 years as a member of NSW Irrigators' Council (NSWIC) MI handed in its membership this year. This decision was not made lightly given our long history with the Council and supports a decision to focus more on issues of importance to the Murrumbidgee Valley. The majority of irrigators in the MIA are members of the various commodity group members of NSWIC, ensuring that they will continue to have a voice in this State water policy forum.

### BCC tour

MI hosted MDBA Basin Community Committee (BCC) Chair Phil Duncan and staff, on a tour around some local farms and infrastructure and was pleased to note the positive impression made upon him by the scale of our operations, innovation of our farmers and the diversity of the region.

### Working with Council

We've continued to work with local Councils, for instance supporting Griffith Council's Lake Wyangan Management Strategy including through work on a cross structure to improve flows into the lakes.

# How MI works

## Our core business is delivery of water through an extensive integrated supply and drainage network, operating as an unlisted public company (limited by shares), owned by the irrigators we supply.

MI's shares are based on the water entitlements (WEs) a customer owns. This means to be a shareholder a person (or entity) must own WEs under a Water Entitlements Contract with MI.

MI operates as a modern business entity with a view to minimising the costs of water delivery to customers. All cost savings and efficiencies are passed on to customers in the form of reduced service fees or additional water allocations.

## Stakeholders and how MI engages

Promoting the MIA as an area of irrigation excellence, and effectively advocating on behalf of our customers, entails MI being actively engaged with a range of stakeholders. We do this as active members of relevant organisations and liaising directly with researchers and policy makers on a range of issues including water policy, environmental issues and water trading mechanisms.

We value a collaborative approach to working with our stakeholders including local Councils, industry bodies, community and environmental groups and other irrigation operators.

Our relationship with our customers is fundamental to the how we work. A proactive engagement model has seen our team meeting on farm with farmers in a concerted effort to improve transparency around our operations and to facilitate a two way exchange of information and ideas.

## Team structure

MI's aim is to enable regional productivity through irrigation by delivering water in the best way possible, a goal implemented by a leadership team of seven, headed by our CEO. The delivery of services to our customers is supported by the organisations functional areas including Operations, Asset Delivery, Customer Service, Finance and ICT, People and Policy and Corporate Services.

### MI Stakeholder Engagement in 2020

**6**
Submissions

**3**
Tours hosted

**8**
Agency meetings

**121**
Customer onsite meetings

**12**
Parliamentarian meetings

**20**
Industry meetings

**6**
Local Council meetings

**2500**
Farm engagement visits

*"The opportunity to be part of small group discussions on a variety of subjects important to both MI and myself is a great way to have a conversation with the Company, it's a two way street."* Sam Mancini

# MI Assets

**378,911 ha**
**Area of operations**
Up to 190,000 ha irrigated

**1,740 km**
**Supply systems**
194 km Piped, 100 km Lined, 1,446 km Earthen

**1,616 km**
**Drainage**

**Full coverage**
**Communications**
16 Towers, 2 Control centres

**3**
**Storages**
Yenda, Brays, Barren Box

**4,361**
**Outlets**
3,432 metered

**3,432**
**Meters**
2,200 Electro magnetic, 18 Slip meters, 1,018 Doppler, 196 Others

**1,808**
**Regulators**
958 Automated

**17**
**Pump stations**
11 IHS, 2 Storages, 4 Others

*Left to right: Sharon Hansen; Dorian Radue, Karen Hutchinson; Alan Shea , Brett Jones; Jody Rudd; Helen Bourne*

# Leadership Team

## Brett Jones

*BE (Hons), MEngSc, GradDipAppFin, HBS AMP, FIE (Aust), MAIPM, MAICD*

**Chief Executive Officer and Managing Director**
Brett Jones commenced as Chief Executive Officer in October 2015 and was appointed to the Board as Managing Director in July 2016. Brett is an experienced executive with qualifications in engineering, project management and finance.

## Dorian Radue

*BA, MBA, MSc (Strategic Focus), GradDipACG, CA, ACMA, GAICD, FGIA, FCIS, JP*

**Company Secretary and General Manager – Corporate Services**
Dorian Radue was appointed as Company Secretary in 2009. In addition to statutory secretarial duties, her responsibilities include administering the business of the Board and managing the Company's corporate services functions.

## Alan Shea

*BEng (Honours), MBA, GAICD*

**General Manager – Operations**
Alan Shea joined the Company in February 2016. Alan is responsible for the operation and maintenance of all infrastructure that services MI's customers, including storage, supply and drainage assets, and the management of heavy plant and equipment.

## Jody Rudd

**General Manager – Asset Delivery**
Jody Rudd joined MI in 2005 and was appointed General Manager Asset Delivery in 2015. Jody is responsible for managing Australian Government funded modernisation projects, MI funded capital projects and business development initiatives.

## Sharon Hansen

**General Manager – Customer Services**
Sharon Hansen joined the Company in August 2016. She is responsible for managing our customer services functions and ensuring that customers are the centre of what we do.

## Karen Hutchinson

*BSc (Hons), GAICD*

**General Manager – People & Policy**
Karen Hutchinson joined the Company in 2009 and is the General Manager for People & Policy. Karen is responsible for company and corporate communications, human resources and external water policy. She is MI's delegate and Deputy Chair of the National Irrigators' Council.

## Helen Bourne

*BBus (Acc), CPA, MBA, MAICD*

**General Manager – Finance & ICT (alternate Company Secretary)**
Helen Bourne commenced as General Manager, Finance and ICT in April 2018. She is responsible for providing financial stewardship to the organisation, along with effective management and oversight of the information and communication technology function.

## Employee performance and remuneration processes

In recognition that good people are at the heart of our organisation's success, MI strives to be an employer of choice and to attract talent from within and beyond our region. In addition to offering attractive and competitive remuneration packages, we support our employees with a range of non-salary benefits, including salary packaging, paid parental leave, life insurance cover and several health and wellness programs.

MI also recognises the importance of offering career pathways and continuous learning to support retention of valued employees and maintain the skills of our people. We offer leadership development and training programs appropriate to employee's roles and career objectives.

For the past three years we have engaged business administration trainees in their first year after graduating school as well as apprentices in electrical and mechanical trades. Advancement and leadership opportunities were provided to eight staff over the previous two years through the GHD Smart Seeds program.

## Diversity and gender balance

MI is committed to gender balance within its operations and annually submits its Workplace Gender Equality Agency (WGEA) public report. A number of policies and strategies are deployed to encourage gender diversity in all areas of MI's operations including offering flexible working arrangements, parental leave and strategies to identify and develop high potential women and 'gender blind' promotion and recruitment processes.

Currently four of the seven strong Leadership team are female. To maintain an environment conducive to women progressing within the organisation, we have ongoing internal training and mentoring for other emerging leaders. This included supporting two of our leaders, one emerging and one established, through women in leadership programs appropriate to their requirements over the past year.

# Corporate governance overview

## MI is committed to ensuring that its corporate governance framework, policies, and practices are best practice and beyond mere legislative compliance.

To deliver on this, MI's Board requires a clear understanding of current governance requirements and practices, while also keeping up to date with emerging trends and changing expectations of its stakeholders.

This overview outlines selected components of MI's corporate governance framework, highlighting the key matters and focus areas for the Board around governance in FY20. To review MI's full Corporate Governance Statement (CGS), visit www.mirrigation.com.au/company.

Throughout FY20, MI's corporate governance approach was guided by Australian Standard AS8000: Good Governance Principles and was consistent with the best practice Corporate Governance Principles and Recommendations (CGPR), fourth edition. As an unlisted public company, MI is committed to continuous improvement and ensuring compliance with relevant standards of corporate governance, where appropriate given the provisions in our Constitution, and in the best interests of all MI stakeholders.

## Board composition, skills and areas of focus

In accordance with the Constitution, there were a number of changes to the composition of the Board in FY20, which were ratified at the November 2019 AGM as follows:

- A class Director Frank Sergi completed his second term as a Director and retired.
- A class shareholder Tracey Valenzisi was elected unopposed to the position of A class member-elected Director for a three-year term.
- B class Director Hayden Cudmore completed his first term on the Board and nominated for re-election. Uncontested, he was re-appointed as a B class member-elected Director for a four-year term.
- Leith Boully's final term as an Independent Director was completed and she retired.
- Following a recruitment process, Michael Carter was offered the position of Independent Director by the Board and his appointment was approved by shareholders.

The Board Skills Matrix (Table 1) summarises the range of essential knowledge, experience and skills assessed as ideal for the MI Board to hold in order to drive MI's current strategic direction and effectively govern. The Board considers that its current members have an appropriate mix of skills and experience to discharge its responsibilities and deliver on MI's strategic objectives.

When Directors join the Board they are required to become members of, and to undertake training provided by, the Australian Institute of Company Directors and other professional organisations which add to the value, capability, and competency of Directors. Directors undertook a number of training and development sessions during the past year both individually and as a group.

The key areas of focus for the Board during FY20, in addition to standing agenda items, are set out in Table 2. The focus areas for the Board Committees, in addition to standing agenda items, are set out in Table 3 and Director attendance at meetings is set out in Table 4.

Underpinning the Board's priorities is oversight of MI's risk management framework which includes legal and regulatory, strategic, financial, reputational, people and culture and business /operations to ensure appropriate management of actual or potential risks. See MI's full Corporate Governance Statement (CGS) for more detail.

*Table 1: Board skills matrix*

| Key skill | Demonstrated by these attributes and outcomes |
|---|---|
| **Water and irrigation industries** | Good working knowledge of, and ability to influence, the structure, operations and challenges of water policy and the irrigation industry. |
| **Financial / commercialisation** | Demonstrated achievements in financial management, commerce, investment management and internal control systems. |
| **Engineering, infrastructure, construction and project management expertise** | Knowledge and experience in infrastructure and engineering, including the prioritisation, delivery and management of investments in infrastructure assets. |
| **Risk management and compliance** | Proven knowledge, background and experience balancing commercial imperatives with the agreed risk appetite in delivering Company objectives. |
| **Stakeholder engagement and communications** | Contribute to the strategic positioning and profiling of MI and to assist MI in high level strategic industry and stakeholder engagement. |
| **Organisational culture and strategic HR management** | Experience and ability to promote and monitor MI's culture; and mentor, support and evaluate the performance of the CEO and oversee and provide input to strategic human resources management. |
| **Corporate and business governance** | Skills, knowledge and experience in contemporary corporate governance and ability to apply those skills, knowledge and experience to MI. |

## Board composition

### Board qualifications

Collectively, Board members have qualifications in one or more of the following fields: agriculture, engineering, finance, marketing and risk management.

### Industry experience

The Board views relevant skills and experience as adding strength to the Board. Directors' collective experience includes irrigated agriculture; water policy; infrastructure, engineering and project management; financial and commercial management; strategy and governance.

### Directors' average tenure

The Board considers it has an appropriate mix of new, mid and longer tenured Directors. The average tenure of the current directors is 5.5 years.

### Diversity

The Board values, and has maintained, an appropriate balance of diversity in Director experience, skills, qualifications and seeks to increase diversity in terms of gender and age.

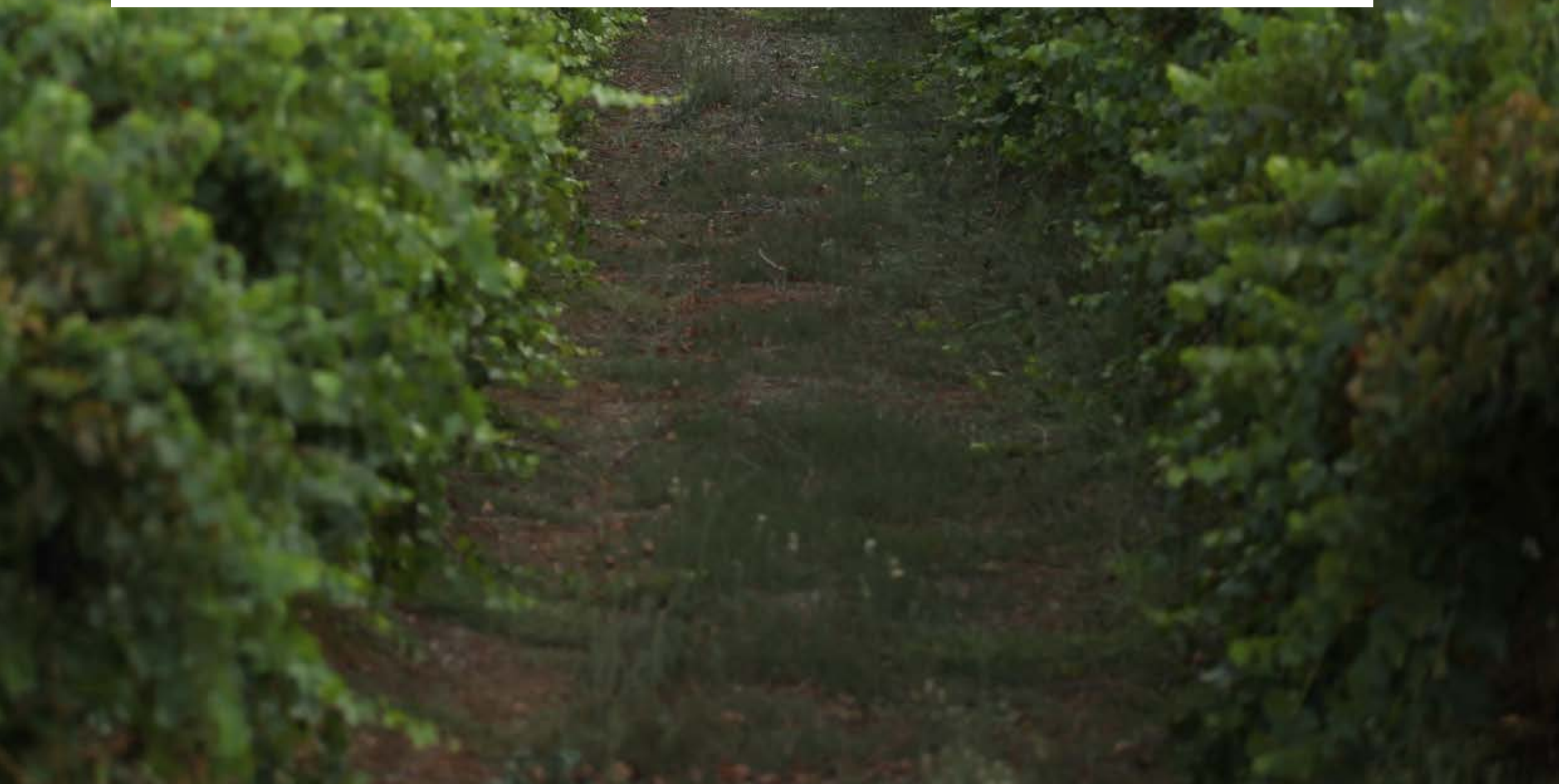


*Table 2: Board key focus areas FY20*

| Board key focus areas FY20 | |
|---|---|
| **Modernisation and automation projects** | Leveraging investments in modernisation projects to deliver long-term operational and financial benefits to the Company and its customers |
| **Company culture, values and leadership** | Oversight of the continued investment in enhanced company culture, promotion of MI's corporate values, and developing and empowering emerging leaders. |
| **Corporate Plan** | Recasting the corporate strategy for the next three years |
| **Water Policy** | Refocus of the Company's investment in advocacy to prioritise Murrumbidgee Valley risks, particularly around the completion of the SDL Adjustment Mechanism projects. |

*Table 3: Board Committees' key focus areas for FY20*

| Board Committees' key focus areas for FY20 | |
|---|---|
| **Audit and Risk Committee** | Oversight of company-wide review project around practices for managing significant regulatory compliance, and formation of Investments Working Group to enhance governance protocols for management of the Company's financial and water investment portfolios. |
| **Remuneration and Nominations Committee** | Negotiate extension of CEO employment contract, terms and conditions for a further three years. |
| **Infrastructure Committee** | Oversee delivery of major capital projects and further development of asset management governance and project management governance practices. |

*Left to right: Kaye Dalton; Tony Sergi; Nayce Dalton; Hayden Cudmore; Brett Jones; Tracey Valenzisi; Michael Carter; Absent: Peter Borrows*

# Board of Directors

The names of the persons who have been Directors, or appointed as Directors, during the financial period and up to the date of this Annual Report are outlined as follows, together with their tenure, qualifications, and other directorships.

## James (Nayce) Dalton

*AdvDipAg, GAICD*

**Chair – Shareholder-elected Director**
Director since 2013; Chair since March 2019

Current appointments: Chair, Murrumbidgee Irrigation Limited; Chair, MI Holdings Pty Ltd; Chair, Remuneration and Nominations Committee; Sole Director, MI Energy Pty Ltd and MI EasyTrade Pty Ltd (both dormant); Chair, Yenda Producers Co-operative Society Pty Ltd; Director, Yenda Producers Distribution Pty Ltd.

## Hayden Cudmore

*GAICD*

**Deputy Chair – Shareholder-elected Director**
Director since 2017; Deputy Chair since March 2019

Current appointments: Member, Audit and Risk Committee; Member Infrastructure Committee; Member, Australian Rural Leadership Foundation.

## Peter Borrows

*BE, Grad Dip in Bus Admin, FIE (Aust), FAICD*

**Independent Director**
Director since 2015

Current appointments: Chair, Infrastructure Committee; Member Remuneration and Nominations Committee; MI's alternate delegate, National Irrigators' Council; Director, Kedron Consulting Pty Ltd; Member, Advisory Committee of Wide Bay Water & Waste.

## Michael Carter

*BEng(Mining), DipFinServ, GradCertMarketing, CertGovPrac&RiskMgmt, GAICD, FGIA*

**Independent Director**
Director since 2019

Current appointments: Chair, Investment Working Group; Member, Audit and Risk Committee; Member, Remuneration and Nominations Committee; Director, Qualia Financial Group Pty Ltd; Director and Responsible Manager, GWP Financial Services Pty Ltd; Non-executive Director, Sydney Institute of Traditional Chinese Medicine.

## Kaye Dalton

*BSc (Forestry), GAICD*

**Independent Director**
Director since 2014

Current appointments: Director, MI Holdings Pty Ltd; Chair, Audit and Risk Committee; Managing Director, Risorsa Group Pty Ltd.

## Antonio (Tony) Sergi

**Shareholder-elected Director**
Director since 2005

Current appointments: Member, Remuneration and Nominations Committee; Member, Infrastructure Committee.

## Tracey Valenzisi

*BBus*

**Shareholder-elected Director**
Director since 2019

Current appointments: Member, Audit and Risk Committee; Member, Infrastructure Committee.

## Brett Jones

*BE (Hons), MEngSc, GradDipAppFin, HBS AMP, FIE (Aust), MAIPM, MAICD*

**Chief Executive Officer (CEO) and Managing Director (MD)**
CEO since October 2015; MD since July 2016

Current appointment: Director, MI Holdings Pty Ltd

**The following Directors retired during the reporting period.**

## Leith Boully

*BRuSc, DipBusStud, FAICD, CDec*

**Independent Director**
Director since 2005; retired 11 November 2019

## Frank Sergi

*BBUs, CPA*

**Shareholder-elected Director**
Director since 2013; retired 11 November 2019

# Company Secretary

## Dorian Radue

*BA, MBA, MSc (Strategic Focus), GradDipACG, ACMA, FGIA, FCIS, CA, GAICD, JP*

**Company Secretary and General Manager – Corporate Services**

Dorian Radue was appointed as Company Secretary in 2009. In addition to statutory secretarial duties, her responsibilities include administering the business of the Board and managing the Company's corporate services functions.

## Helen Bourne

*BBus (Acc), CPA, MBA, MAICD*

**General Manager – Finance & ICT (alternate Company Secretary)**
Helen Bourne commenced as General Manager, Finance and ICT in April 2018. She is responsible for providing financial stewardship to the organisation, along with effective management and oversight of the information and communication technology function.

## Directors' remuneration

At the Annual General Meeting held on 7 November 2016, shareholders approved a change to the method of remunerating Directors. Aggregate remuneration is limited through an annual cap for Directors' fees, escalating by CPI at the start of each year. The cap for FY20 was $452,200 (inclusive of superannuation contributions) and actual compensation for the year was below this cap.

Information on Directors' aggregate compensation for the financial year is shown in Note 26 to the financial statements.

## Directors' and managers' interests

Shareholder Directors Nayce Dalton, Hayden Cudmore, Tony Sergi and Tracey Valenzisi all have interests in contracts with Murrumbidgee Irrigation Limited to own and deliver water. These contracts are based on normal customer terms and conditions. The individual contracts are not subject to discussion at directors' meetings. All Directors declare any interests in matters relevant to the Company as they arise, and formally table standing disclosures of their interests at least annually. When matters are discussed in which a material personal interest might exist or be perceived to exist for an individual Director, that Director will excuse him or herself from the meeting and take no further part in decisions relating to those matters unless the remaining Directors determine that it is in the Company's best interests for the Director to participate.

Directors acknowledge that their overriding duty is to the Company and that Board decisions must be made in the best long-term interests of the Company. Directors and managers are required to place the Company's interests ahead of their personal business interests, and refrain from actions which constitute competing with the Company or taking personal advantage of information provided to them in their capacity as Directors.

Our Constitution prohibits the Independent Directors and the Managing Director from holding voting shares in the Company. In addition, the Board has determined that Independent Directors and CEO may not own or trade water entitlements in the Southern Connected Basin. Leadership team members may only hold voting shares in the Company if formally approved.

Aggregate information on shares and commercial transactions of key management personnel with the Company are shown in Note 26 to the financial statements.

*Table 4: Directors' attendance at meetings*

| Directors' attendance at meetings | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Director** | **Directors' Meetings** | | **Audit and Risk Committee** | | **Remuneration and Nominations Committee** | | **Infrastructure Committee** | |
| | Possible | Attended | Possible | Attended | Possible | Attended | Possible | Attended |
| **James (Nayce) Dalton** | 11 | 11 | | | | | | |
| **– ex officio** | | | 4 | 4 | | | 3 | 3 |
| **Hayden Cudmore** | 11 | 11 | 4 | 4 | | | 3 | 3 |
| **Leith Boully** | 4 | 4 | 1 | 1 | 1 | 1 | | |
| **Peter Borrows** | 11 | 11 | | | 4 | 4 | 3 | 3 |
| **Michael Carter** | 7 | 7 | 3 | 3 | 3 | 3 | | |
| **Kaye Dalton** | 11 | 11 | 4 | 4 | | | | |
| **Antonio (Tony) Sergi** | 11 | 9 | | | 4 | 4 | 3 | 3 |
| **Frank Sergi** | 4 | 4 | 1 | 1 | | | | |
| **Tracey Valenzisi** | 7 | 7 | 3 | 3 | | | 2 | 2 |
| **Brett Jones** | 11 | 11 | | | | | | |
| **– ex officio** | | | 4 | 4 | 4 | 4 | 3 | 3 |

# Directors' report

Directors present their report on the Company and its controlled entities for the financial year ended 30 June 2020.

## Directors

The persons who served as Directors of Murrumbidgee Irrigation Limited during the year in review and up to the date of this report are listed on page 18.

## Company Secretary

The Company Secretary details are listed on the Leadership Team's profiles on page 12.

## Meetings

The Board met either in person or via video conference 11 times during the year. The duration of meetings was one to two days, including committee meetings, field trips, site visits, customer meetings, training and a strategy session. Meetings are preferably held on-site and face-to-face, however teleconference and electronic meeting technology was used extensively during the latter part of the year due to COVID-19 government-imposed travel restrictions.

The agenda for meetings is set through consultation between the Chair, the Chief Executive Officer and other leadership team members. Prior to each meeting, Directors are provided with briefing papers on matters to be considered and are encouraged to participate in debate and to bring to meetings independent views on all relevant issues. Details of attendance at Board meetings are shown in Table 4 of the Corporate Governance Overview on page 21.

## Principal activities

The consolidated entity continued its principal activity of water delivery and related services to all customers while maintaining a competitive, resilient business through prudent fiscal management. This primary goal continues to guide the consolidated entity in supporting sustainable irrigation in our area.

There were no significant changes to the nature of the consolidated entity's principal activities during the financial year.

## Significant changes in the state of affairs

There are no significant changes in the state of affairs of the consolidated entity.

## Financial statements

The financial statements for the FY20 year in review are contained within this report.

## Basis of preparation of financial statements

The financial statements for the year in review are presented as consolidated entity statements. They incorporate the results of the Company and its controlled entities: MI Holdings Pty Ltd, the Hanwood Estate Property Trust, MI Energy Pty Ltd and MI EasyTrade Pty Ltd on a consolidated basis, as required by Australian Accounting Standards (Reduced Disclosure Requirements).

## Shares, options and loans

Company shares are not listed on any share trading exchange.

There are no securities under option or in respect of which options have been created, nor have any options been exercised.

On winding up of the Company, any remaining assets may not be distributed to shareholders but must be transferred to another irrigation corporation in the MIA, or an entity with similar purposes to the Company.

Shares held by Directors are disclosed in Table 5 in the Directors' Report.

No loan has been granted to any Director during the year.

## Auditor's independence

Audit firm Grant Thornton has no representation on the Board or Board committees, nor is there any relationship between company officers and the auditor other than the normal business relationship between auditor and client.

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth).

The Auditor's Independence Declaration is included with the financial statements. Fees paid to the external auditors for audit and non-audit services are fully disclosed in the notes to the financial statements.

## Risk management

Directors confirm that robust risk management processes and practices are in place, and that business risks, including business continuity, continue to be managed appropriately. The Board has formally adopted a statement of risk appetite which it applies when making decisions on behalf of the Company.

This year, a judgement was issued by the Supreme Court of New South Wales in regard to MI's defence of litigation brought by a customer. The Court dismissed all claims made by the plaintiff and ordered the reimbursement of MI's costs of proceedings, as agreed or assessed; although it is noted that MI's defence of this matter was fully insured. This dispute has spanned some ten years and the Board is pleased to confirm that the matter has been resolved in MI's favour.

## Compliance

Our practices for managing significant regulatory compliance areas have been the focus of a company-wide review project during the past year. The Board is satisfied that compliance is satisfactorily managed to discharge our legal obligations.

## Review of operations

The underlying earnings from the normal operations of MI for FY20 was $2,781,000. This number represents the Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and excludes earnings from government funded programs. EBITDA is a measure of the Company's operating performance and represents the actual cash position of the business after taking into account revenue and expenditure. Revenue from normal operations, including customer operations, water savings and investment revenue was $33,571,000 and expenditure was $30,790,000.

The Company aims to match its earnings from normal operations to its capital renewal requirements over a rolling 5 year period, to take into account variability in anyone year associated with fluctuating water availability. In FY20, capital expenditure on asset renewal (excluding PIIOP programs) was $4,033,000 which was slightly above EBITDA for the year.

This year the Company delivered the second lowest volume of water to customers in the last 20 years. Despite this lower water availability, the Company maintains a strong financial position due to its fully funded asset reserve and 5 year financial plan. The strength of the financial position of the Company has enabled MI to maintain price increases to CPI only with the exception of DE charges which have decreased for the third consecutive year.

The COVID-19 pandemic had minimal impact on the Company's operations and results of those operations for the year. Classified as an essential service, MI continued its water delivery and related services to customers. While our office doors were closed and staff re-assigned to work from home or in separated teams, all services continued as before with no interruption to the supply chain.

## Matters subsequent to the end of the year

Between the end of the financial year and the date of this Directors' Report, no events have occurred, which in the opinion of Directors, have the potential to significantly affect the state of affairs of the consolidated entity.

## Future developments

A more promising season, likely increases in water availability and some reduction in the exceptionally high water prices of last year, following a period of drought and low allocations will mean our customers will be keen to maximise the value that they receive from irrigation. This will offer an opportunity for MI to continue to demonstrate the value of our investment in automation and in particular, our ability to regulate water flows to meet customer needs with maximum water and cost efficiency.

The ongoing uncertainty created by the COVID-19 pandemic in Australia and globally is likely to impact the working environment for MI during the coming year. We will need to maintain a focus on health and safety measures and having operational plans in place to ensure we are in a position to continue to provide an essential service in the event of cases being found in the Riverina, or within our team. The crisis is also likely to cause uncertainty in the markets of many of our customers, thereby making their operating environment more challenging.

The combination of these challenges means that a continued focus on network efficiency and people development is essential to support system responsiveness and create an agile workforce ready to respond now and in future.

## Water reform

This year the NSW Government submitted the Murrumbidgee Water Resource Plan to the MDBA for accreditation. It also saw the appointment of a new Federal Water Minister and ongoing debate regarding water policy, including a number of reviews of water management. Despite these reviews, some significant risks still remain.

The risk of greatest concern is the current lack of progress on the projects under the Sustainable Diversion Limit (SDL) Adjustment Mechanism and the looming deadline of 2024 when the MDBA is scheduled to report on the outcomes of the Basin Plan. This will leave NSW with a significant shortfall which, we fear, is most likely to be addressed through additional buybacks from the irrigators in our districts. This outcome would be unacceptable to our customers and the communities reliant on irrigation and MI will actively advocate for the delivery of the SDLAM targeted environmental outcomes.

## Environmental regulation

Murrumbidgee Irrigation Limited holds an operating licence under the *Water Management Act 2000* (NSW) to carry out the business and function of water delivery within its Area of Operations. A requirement of this operating licence is to hold an Environmental Protection Licence (EPL) under the *Protection of the Environment Operations Act 1997* (NSW). The EPL is issued by the Environmental Protection Authority (EPA) and, among other conditions, requires monitoring and reporting of specified water quality parameters at sites that discharge water outside MI's Area of Operation.

MI met the requirements of our EPL for this reporting year.

To satisfy the requirements of our licences, MI prepares and submits an Annual Compliance Report covering the licensed activities. A copy of our latest available report is located on our website www.mirrigation.com.au.

## Indemnifying Directors and Officers

Murrumbidgee Irrigation Limited indemnifies Directors and leadership team members for liabilities to third parties arising from their role as officers of the Company, unless that liability arises out of conduct involving a lack of good faith or a pecuniary penalty or compensation order under the *Corporations Act 2001* (Cth). The Company also provides an indemnity for Directors and leadership team members against the cost of successfully defending themselves against civil or criminal proceedings. The Company has insurance policies that provide cover for permitted situations.

During FY20, the Company paid a premium of $68,900 (exclusive of GST and stamp duty) to provide liability insurance cover for Directors and officers and the Company. The insured liabilities include any legal costs that may be incurred in defending civil or criminal proceedings which may be brought against the Company or its officers when acting in that capacity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, unless such liabilities arise out of conduct involving a wilful breach of duty by the officers, or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

It is not possible to apportion the premium between amounts relating to legal costs and other liabilities, or between officers' cover and Company cover.

## Proceedings on behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company, nor has any such application been made, under section 237 of the *Corporations Act 2001* (Cth).

## Dividends

The Company's Constitution prohibits it from declaring any dividends.

*Table 5: Particulars of Directors' interests in shares and Delivery Entitlements at 30 June 2020*

| Director | Directors' interest in shares | | | Delivery Entitlements |
|---|---|---|---|---|
| | A Class | B Class | C Class | |
| Hayden Cudmore | – | 2,103 | – | 3,232 |
| Nayce Dalton | 1,154 | 3,012 | – | 5,026 |
| Antonio Sergi | 220 | – | – | 345 |
| Tracey Valenzisi | 149 | – | 2 | 151 |

## Directors statement

Directors are satisfied that the auditor, Grant Thornton, has met the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth).

This report is made in accordance with a resolution of the directors.

**James (Nayce) Dalton**
Chair

Hanwood, NSW
27 August 2020

# Auditor’s independence declaration

A copy of the auditor’s independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) is set out below:

Grant Thornton

**Grant Thornton Audit Pty Ltd**
Level 22 Tower 5
Collins Square
727 Collins Street
GPO Box 4736
Melbourne VIC 3008

T +61 3 8320 2222

## Auditor’s Independence Declaration

### To the Directors of Murrumbidgee Irrigation Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Murrumbidgee Irrigation Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner – Audit & Assurance

Melbourne, 27 August 2020

# Financial statements

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2020

## Revenue

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Operations | 6 | 26,848 | 32,228 |
| Government and other | 6 | 24,052 | 75,244 |
| Investments | 6 | 7,042 | 4,231 |
| **Total revenue** | | **57,942** | **111,703** |

## Expenditure

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Contractors and consultants – operating | 7 | 1,306 | 2,146 |
| Contractors and consultants – PIIOP (recoverable) | | 383 | 10,865 |
| Depreciation | 14 | 14,277 | 10,874 |
| Employment related | 7 | 19,436 | 19,113 |
| Impairment of assets | | – | 1,229 |
| Net loss on transfer of assets – Gunbar Water | | – | 23,179 |
| Net gain on disposal of assets | 7 | (485) | (128) |
| Operation and materials | | 5,050 | 5,722 |
| Operation and materials – PIIOP (recoverable) | | 3,997 | 10,726 |
| Other | 7 | 3,933 | 6,658 |
| Utilities | | 1,319 | 1,573 |
| **Total expenditure** | | **49,216** | **91,957** |
| **Profit before tax** | | **8,726** | **19,746** |
| Income tax benefit/(expense) | 15 | 3,445 | (8,297) |
| **Profit for the year** | | **12,171** | **11,449** |
| **Other comprehensive income** | | | |
| **Items that will be reclassified subsequently to profit or loss:** | | | |
| Financial asset at FVOCI[1] revaluation loss | | (90) | (118) |
| Income tax benefit on items recognised directly in equity | | 27 | 35 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Actuarial loss of defined benefits plan recognised directly in equity | | (210) | (609) |
| Income tax benefit on items recognised directly in equity | | 63 | 183 |
| **Other comprehensive income for the year net of tax** | 5 | **(210)** | **(509)** |
| **Total comprehensive income for the year** | | **11,961** | **10,940** |

*The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*
*[1] Fair Value through Other Comprehensive Income (FVOCI).*

# Consolidated statement of financial position as at 30 June 2020

## Assets

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | 14,455 | 28,172 |
| Trade and other receivables | 10 | 14,375 | 15,513 |
| Inventories | 11 | 1,091 | 1,141 |
| Other assets | 12 | 804 | 1,478 |
| **Total current assets** | | **30,725** | **46,304** |
| **Non-current assets** | | | |
| Financial assets | 13 | 4,940 | 13,751 |
| Property, plant and equipment | 14 | 462,296 | 452,747 |
| Intangible assets | 16 | 143,243 | 145,146 |
| Shares in co-operative | | 40 | 41 |
| **Total non-current assets** | | **610,519** | **611,685** |
| **Total assets** | | **641,244** | **657,989** |

## Liabilities

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Trade and other payables | 17 | 10,318 | 12,193 |
| Provisions | 18 | 4,222 | 4,638 |
| Deferred revenue | 19 | 821 | 4,799 |
| **Total current liabilities** | | **15,361** | **21,630** |
| **Non-current liabilities** | | | |
| Provisions | 18 | 387 | 487 |
| Deferred tax liabilities | 15 | 43,313 | 46,848 |
| Other liabilities | 20 | 1,610 | 1,296 |
| **Total non-current liabilities** | | **45,310** | **48,631** |
| **Total liabilities** | | **60,671** | **70,261** |
| **Net assets** | | **580,573** | **587,728** |

## Equity

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Contributed equity | 22 | 273,734 | 273,734 |
| Retained earnings | 23 | 255,674 | 262,766 |
| Reserves | 24 | 51,165 | 51,228 |
| **Total equity** | | **580,573** | **587,728** |

*The consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# Consolidated statement of changes in equity for the year ended 30 June 2020

| | Share Capital $'000 | FVOCI Reval Reserve* $'000 | Asset reserve $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance as at 30 June 2018** | **273,734** | **75** | **51,236** | **251,743** | **576,788** |
| Profit for the year | – | – | – | 11,449 | 11,449 |
| Other comprehensive income for the year | – | (83) | – | (426) | (509) |
| Total comprehensive income for the year | – | (83) | – | 11,023 | 10,940 |
| **Balance as at 30 June 2019** | **273,734** | **(8)** | **51,236** | **262,766** | **587,728** |
| Adjustment on adoption of AASB 15 | – | – | – | (19,116) | (19,116) |
| **Balance as at 1 July 2019** | **273,734** | **(8)** | **51,236** | **243,650** | **568,612** |
| Profit for the year | – | – | – | 12,171 | 12,171 |
| Other comprehensive income for the year | – | (63) | – | (147) | (210) |
| Total comprehensive income for the year | – | (63) | – | 12,024 | 11,961 |
| **Balance as at 30 June 2020** | **273,734** | **(71)** | **51,236** | **255,674** | **580,573** |

*The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*
** Fair Value through Other Comprehensive Income (FVOCI) revaluation reserve – refer to notes 1(r) and 1(u).*

# Consolidated statement of cash flows for the year ended 30 June 2020

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (including GST) | | 31,098 | 32,167 |
| Payments to suppliers and employees (including GST) | | (40,531) | (63,933) |
| Cash used by operations | | **(9,433)** | **(31,766)** |
| Receipts from annual water trading and leasing of water and land | | 2,191 | 4,214 |
| Receipts from government contributions | | 6,006 | 18,033 |
| **Net cash generated by operating activities** | | **(1,236)** | **(9,519)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments to acquire financial assets | | (12,444) | (32,026) |
| Proceeds on sale of financial assets | | 21,157 | 57,006 |
| Payments for property, plant and equipment | | (25,982) | (97,307) |
| Proceeds on sale of property, plant and equipment | | 305 | 1,983 |
| Payments for water investments | | (2,566) | (5,540) |
| Interest and investment income received | | 7,049 | 4,231 |
| **Net cash used in investing activities** | | **(12,481)** | **(71,653)** |
| | | | |
| **Cash flows from financing activities** | | – | – |
| **Net decrease in cash and cash equivalents** | | **(13,717)** | **(81,172)** |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 28,172 | 109,344 |
| **Cash and cash equivalents at the end of the year** | 9 | **14,455** | **28,172** |

*The consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

# Notes to the financial statements as at 30 June 2020

## Note 1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Where there has been a change in presentation format, prior year comparatives have been changed accordingly.

### (a) Basis of preparation

The Company's principal purpose is to provide cost effective services to its customers rather than to generate profits, as such, the directors have determined that the Company is a not-for-profit entity as defined under Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

Murrumbidgee Irrigation Limited (the "Company") is a limited company incorporated in Australia. The registered office and principal place of business of Murrumbidgee Irrigation Limited is:

86 Research Station Road,
Hanwood NSW 2680.

### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Murrumbidgee Irrigation Limited and its controlled entities MI Holdings Pty Ltd as trustee for the Hanwood Estate Property Trust, MI EasyTrade Pty Ltd and MI Energy Pty Ltd. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Control is achieved where Murrumbidgee Irrigation Limited:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

### (c) New or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Company:

(i.) **AASB 16 Leases**

AASB 16 Leases replaces AASB 117 Leases and for lessees eliminates the classification of operating leases and finance leases.

Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position.

Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities (included in finance expenses). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

The Company has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straightline basis over the remaining lease term.

The adoption of AASB 16 has not resulted in an adjustment to the financial statements.

(ii.) **AASB 15 Revenue from Contracts with Customers**

The Company has adopted AASB 15 from 1 July 2019. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The standard has been applied using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2019 and comparatives are not restated. In accordance with the transition guidance, AASB 15 has only been applied to contracts that are incomplete as at 1 July 2019.

The adoption of AASB 15 has impacted revenue recognition principles applied to PIIOP contracts and has resulted in an adjustment to opening retained earnings of $19,116,007.

The Bulk Water charge from the NSW Government was in prior years recognised as a cost of sale. The adoption of AASB 15 has resulted in the netting off of cost against the Bulk Water revenue as the Company is acting in an agency capacity.

The tables below highlight the impact of AASB 15 on the Company's statement of financial position for the period ended 30 June 2019. The adoption of AASB 15 did not have a material impact on the Company's statement of cash flows nor statement of profit or loss and other comprehensive income.

**Statement of Financial Position (extract)**

| | Amounts under AASB 118 $'000 | Adjustments $'000 | Amounts under AASB 15 $'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Deferred revenue | 4,799 | 19,116 | 23,915 |
| **Total liabilities** | **21,630** | **19,116** | **40,746** |

On the date of the initial application of AASB 15, 1 July 2019, the impact to retained earnings of the Company is as follows:

| | $'000 |
|---|---|
| **Retained earnings as at 1 July 2019** | **262,766** |
| Recognition of PIIOP contract under AASB 15 | (19,116) |
| **Restated retained earnings as at 1 July 2019** | **243,650** |

(iii.) **AASB 1058 Income of Not-for-Profit Entities**

The Company has adopted AASB 1058 from 1 July 2019. The standard replaces AASB 1004 Contributions in respect to income recognition requirements for not-for-profit entities. The timing of income recognition under AASB 1058 is dependent upon whether the transaction gives rise to a liability or other performance obligation at the time of receipt. Income under the standard is recognised where: an asset is received in a transaction, such as by way of grant, bequest or donation; there has either been no consideration transferred, or the consideration paid is significantly less than the assets' fair value; and where the intention is to principally enable the entity to further its objectives. For transfers of financial assets to the entity which enable it to acquire or construct a recognisable non-financial asset, the entity must recognise a liability amounting to the excess of the fair value of the transfer received over any related amounts recognised. Related amounts recognised may relate to contributions by owners, AASB 15 revenue or contract liability recognised, lease liabilities in accordance with AASB 16, financial instruments in accordance with AASB 9, or provisions in accordance with AASB 137. The liability is brought to account as income over the period in which the entity satisfies its performance obligation. If the transaction does not enable the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income immediately.

The adoption of AASB 1058 has not resulted in a material impact to the financial statements.

### (d) Revenue recognition

(i.) **Revenue from the supply of water:** Revenue from the supply of water is recognised when the performance obligation is satisfied, which is when the water has been delivered to the customer. All water usage measurement is completed before the end of the financial year. Fixed access and other fees are recognised on a pro-rata basis throughout the year.

(ii.) **Contract and other revenue:** When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Where there is an obligation to provide services at reporting date, revenue has been deferred in accordance with AASB 15.

(iii.) **Government contributions for Private Irrigation Infrastructure Operators Program (PIIOP):** Contributions received from the government for infrastructure improvements are recognised as income on a percentage of completion basis, as the relevant expenditure is incurred and when water entitlements are returned. As this arrangement constitutes a bundled contract, income relating to each element is recognised proportional to their fair value at contract date as if they were sold independently of each other.

As the Company is obliged under the terms of the funding agreement to undertake the relevant infrastructure works or refund the money, any unexpended funds, equivalent to any unperformed work, at balance date are brought to account as a liability.

(iv.) **Interest income:** Interest income is recognised when earned.

(v.) **Revenue from the sale of assets:** Revenue from the sale of fixed assets is recognised when the performance obligation has been satisfied which is when the control of the assets has been passed to the buyer.

(vi.) **Termination fees:** Termination fees are charged on cancellation of delivery entitlements.

(vii.) **Sale of goods:** Revenue is measured at the fair value of consideration received or receivable. Revenue from the sale of goods is recognised when the performance obligation has been satisfied which is upon delivery of the goods to the customers and associated risks of ownership have passed. All revenue is stated net of the amount of goods and services tax (GST), returns, trade allowances and other duties and taxes paid.

**Accounting policy applicable to comparative period (30 June 2019)**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities:

(i.) **Revenue from the supply of water:** Revenue from the supply of water and drainage services comprises both access and usage-based charges which are billed GST-free annually to all customers. Revenue is recognised as the services are delivered to customers.

(ii.) **Contract and other revenue:** Other revenue is raised from the provision of contract works, including the installation of irrigation supply infrastructure, earthmoving, hire of plant and workshop activities, and is recognised using a percentage completion method.

(iii.) **Revenue recognised from government contributions (LWMP and ARFD):** Contributions received by the consolidated entity from these sources are recognised as revenue when the expenditure is incurred in the appropriate programs.

(iv.) **Government contributions for Private Irrigation Infrastructure Operators Program 2 (PIIOP2):** Contributions received from the government for infrastructure improvements are recognised as revenue as the relevant expenditure is incurred. As the consolidated entity is obliged under the terms of the funding agreement to undertake the relevant infrastructure works or refund the money, any unexpended funds at balance date are brought to account as a liability.

(v.) **Government contributions for Private Irrigation Infrastructure Operators Program 3 (PIIOP 3):** Contributions received from the government for infrastructure improvements are recognised as revenue on a percentage of completion basis, as the relevant expenditure is incurred and when water entitlements are returned. As this arrangement constitutes a bundled contract, revenue relating to each element is recognised proportional to their fair value at contract date as if they were sold performed independently of each other. As the consolidated entity is obliged under the terms of the funding agreement to undertake the relevant infrastructure works or refund the money, any unexpended funds, equivalent to any unperformed work, at balance date are brought to account as a liability.

(vi.) **Leasing of water and property:** Revenue is recognised on a straight line basis over the term of the lease.

(vii.) **Interest income:** Interest income is recognised as it accrues.

(viii.) **Revenue from the sale of assets:** Revenue from the sale of fixed assets is recognised when risks and rewards of ownership have passed to the buyer.

(ix.) **Temporary transfer of water:** Revenue from the temporary transfer of water is recognised when the risks and rewards have passed to the buyer.

(x.) **Termination charges:** A charge is levied on cancellation of delivery entitlements. This charge for 2018/19 was based on a multiple of 10 times fixed charges in accordance with ACCC water charge rules.

### (e) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that, at the time of the transaction, did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses, only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In 2013/14, the entity elected to adopt the NANE (non assessable non exempt) provisions for all PIIOP revenue and expenses. Under these provisions all PIIOP related revenue is exempt from tax and expenditure is not claimable.

### (f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

As the consolidated entity is a not-for-profit entity and the future economic benefits of the consolidated entity assets are not primarily dependent on their ability to generate cash flows, value in use is taken to be current replacement cost provided that the consolidated entity would, if deprived of the asset, replace it.

Accordingly, the consolidated entity's non-current assets may be carried at amounts significantly in excess of the values that would be applied if it were a 'for profit' entity in accordance with Australian Accounting Standards – RDR and had applied the impairment rules of a 'for profit' entity.

### (g) Trade and other receivables

Trade receivables are recognised at fair value. Trade receivables are raised at the end of April for fixed charges and the end of June for water use based charges and are due for settlement no more than 28 days from the date of raising of the invoices. Other debtors are due for settlement in no more than 28 days. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms. The amount of movement in the provision is recognised in the consolidated statement of profit or loss and other comprehensive income.

Chapter 7, Part 4, clauses 354 to 362 of the *Water Management Act 2000* ('the Act') provides that a rate or charge imposed on the owner of any land by an irrigation corporation is a charge on the land to which it relates, thereby securing the debts.

Chapter 4, Part 1, Division 6, paragraph 136 of the Act further provides that on a change of ownership of land, the new landholder is liable to the irrigation corporation for the amount of any charges levied by the irrigation corporation in relation to the land and unpaid by the previous landholder as if the new landholder had entered into a contract with the irrigation corporation for the supply of the service or services to which the unpaid services relate.

Based on the above provisions of the *Water Management Act 2000* the consolidated entity considers the provision for doubtful debts to be appropriate.

### (h) Inventories

Raw materials and stores are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock on the basis of weighted average costs. No inventory is held for resale.

### (i) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of overheads. Land is not depreciated.

Depreciation on other assets is calculated using the straight-line method to allocate their cost over their estimated useful life, as follows:

| | Years |
|---|---|
| Earth channels and drains | 100 |
| Infrastructure | 15–100 |
| Buildings and cottages | 40 |
| Plant | 6–15 |
| Office equipment | 3–5 |
| Scientific instruments | 5–15 |
| Motor vehicles | 4–7 |

Assets are not depreciated until they have been commissioned. The assets' residual values and useful life are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer Note 1 (f)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of profit or loss and other comprehensive income.

### (j) Intangible assets

Licenced water share components are brought to account at cost. The licences have indefinite useful life and accordingly no amortisation is charged. The licenced water shares are checked for impairment annually (refer Note 1 (f)).

### (k) Maintenance expenditure

Routine maintenance expenditure of a regular and ongoing nature is charged as an operating expense to the profit or loss as and when incurred. Major refurbishments in respect of earth supply and drainage channels and other infrastructure are treated as capital.

### (l) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity up to the reporting date which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### (m) Employee benefits

(i.) **Short-term and long-term employee benefits:** A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits, are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

(ii.) **Retirement benefit obligations:** All employees of the consolidated entity are entitled to benefits on retirement, disability or death. Plans are either defined contribution or defined benefit. The defined benefit plan provides defined lump sum or pension benefits based on years of service and final average salary and is administered by the Local Government Superannuation Scheme.

Under the accumulated plans, the consolidated entity makes contributions as determined by legislation.

A liability or asset in respect of defined benefit superannuation plans is recognised in the consolidated statement of financial position and is measured as the present value of the defined benefit obligation at the reporting date plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Movements in the value of the defined benefits plans' assets and liabilities are recognised directly to other comprehensive income. Post service costs and net interest expense or income are recognised in profit or loss in the period. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### (n) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand and cash at bank.

### (o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

### (p) Rounding of amounts

The Company is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### (q) Financial assets

#### (i.) Recognition, initial measurement and derecognition

Financial assets are recognised when the Company becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets are described below. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

#### (ii.) Classification and subsequent measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (FVPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI)

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

#### (iii.) Subsequent measurement of financial assets

***Financial assets at amortised cost***

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as government bonds that were previously classified as held-to-maturity under AASB 139.

***Debt instruments at fair value through other comprehensive income (Debt FVOCI)***

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at debt FVOCI. Any gains or losses recognised in OCI will be reclassified to profit or loss upon derecognition of the asset. This category includes corporate bonds that were previously classified as 'available-for-sale' under AASB 139.

**Impairment of financial assets**

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

**Trade and other receivables and contract assets**

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses.

In using the practical expedient, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

**Classification and measurement of financial liabilities**

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

### (r) Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

### (s) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### (t) Leasing

For any new contracts entered into on or after 1 July 2019, the Company considers whether a contract is, or contains, a lease. At lease commencement date, a right-of-use asset and a lease liability is recognised on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The right-of-use assets are depreciated on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, the lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

### (u) Reserves

The Constitution provides that directors may, at their discretion, set aside reserves out of Company profits, to be used for any purpose that the profits of the Company can be properly applied. Such reserves can be used in the business of the Company or reinvested as the directors think fit.

(i.) **Asset Reserve:** The purpose of the Asset Reserve is to set aside funds for future investment in infrastructure. The revenue that MI derives from financial and water investment funds the ongoing asset renewal program of the business.

(ii.) **Fair Value through Other Comprehensive Income Reserve (FVOCI):** The purpose of the FVOCI Reserve is to accumulate unrealised gains or losses on financial asset revaluations.

### (v) Critical accounting judgments and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i.) **Useful lives of property, plant and equipment:** The directors periodically review operating infrastructure, plant and equipment to determine that their condition and remaining useful life are reasonable.

(ii.) **Provision for environmental remediation:** The directors have recorded a provision for environmental remediation – Note 27.

(iii.) **Provision for long service leave:** Oncosts do not include superannuation as the majority of leave is generally paid on termination.

(iv.) **Asset impairment:** Assets are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

As the Company is a not-for-profit entity and the future economic benefits of the Company's assets are not primarily dependent on their ability to generate cash flows, value in use is taken to be current replacement cost provided that the Company would, if deprived of the asset, replace it.

Intangible assets with indefinite useful lives are reviewed annually as to whether their carrying value exceeds their recoverable amount.

The commencement of the PIIOP project created an expectation that a significant portion of the Company's capital assets will be replaced, decommissioned or handed over to the landholders in future years. Where the Company has been able to make a reasonable estimate of such items, the carrying amount of the relevant assets has been reduced to their recoverable amount. That reduction is recognised as an impairment loss through the consolidated statement of profit or loss.

### (w) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law. Accounting Standards include Australian Accounting Standards – Reduced Disclosure Requirements.

The financial statements were authorised for issue by the directors on 27 August 2020.

### (x) Comparatives

Unless otherwise stated, all accounting policies applied are consistent with those of prior years. Where necessary, comparatives have been reclassified for consistency with current year disclosures.

## Note 2. Segment reporting

Revenue and expenses by activities ($'000)

| 2020 | Customer operations | Water savings | Investments | Government and other activities | Hanwood Estate Property Trust | Inter-company | Total |
|---|---|---|---|---|---|---|---|
| Revenue | 24,807 | 2,047 | 6,717 | 24,052 | 1,206 | (887) | **57,942** |
| Expenses | (44,704) | (29) | – | (4,164) | (1,206) | 887 | **(49,216)** |
| **(Loss)/profit before tax** | **(19,897)** | **2,018** | **6,717** | **19,888** | **–** | **–** | **8,726** |

| 2019 | Customer operations | Water savings | Investments | Government and other activities | Hanwood Estate Property Trust | Inter-company | Total |
|---|---|---|---|---|---|---|---|
| Revenue | 28,183 | 4,054 | 4,201 | 75,244 | 1,016 | (995) | **111,703** |
| Expenses | (40,399) | (2,648) | – | (48,889) | (1,016) | 995 | **(91,957)** |
| **(Loss)/profit before tax** | **(12,216)** | **1,406** | **4,201** | **26,355** | **–** | **–** | **19,746** |

## Note 3. Parent entity disclosure

Statement of profit or loss and other comprehensive income of the parent entity Murrumbidgee Irrigation Limited

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Operations revenue | 33,571 | 36,436 |
| Government and other revenue | 24,052 | 75,244 |
| **Total revenue** | **57,623** | **111,680** |
| Customer expenditure | 44,950 | 43,045 |
| Government and other expenditure | 4,164 | 48,889 |
| **Total expenditure** | **49,114** | **91,934** |
| Profit before tax | 8,726 | 19,746 |
| Income tax expense | 3,445 | (8,297) |
| **Profit for the year** | **11,954** | **11,449** |
| **Other comprehensive income** | | |
| Actuarial loss of defined benefit plan recognised directly in equity | (210) | (609) |
| Financial asset at FVOCI revaluation losses | (90) | (118) |
| Income tax expense on items recognised directly in equity | 90 | 218 |
| **Other comprehensive income for the year net of tax** | **(210)** | **(509)** |
| **Total comprehensive income for the year net of tax** | **11,744** | **10,940** |

Statement of financial position of the parent entity Murrumbidgee Irrigation Limited

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Current assets | 31,571 | 46,129 |
| Non-current assets | 628,627 | 613,260 |
| **Total assets** | **660,198** | **659,389** |
| Current liabilities | 18,226 | 23,099 |
| Non-current liabilities | 61,598 | 48,544 |
| **Total liabilities** | **79,824** | **71,643** |
| **Net assets** | **580,374** | **587,746** |
| Contributed equity | 273,734 | 273,734 |
| Reserves | 51,165 | 51,228 |
| Retained earnings | 252,475 | 262,784 |
| **Total equity** | **580,374** | **587,746** |

## Note 4. Subsidiaries

Information about the composition of the Group at the end of the reporting period is as follows.

| Name of Entity | Principal activity | Place of incorporation | Number of wholly-owned subsidiaries | | Proportion of interest and voting | |
|---|---|---|---|---|---|---|
| | | | 2020 | 2019 | 2020 | 2019 |
| MI Holdings Pty Ltd | Trustee Company | Australia | 1 | 1 | 100% | 100% |
| Hanwood Estate Property Trust | Investment | Australia | 1 | 1 | 100% | 100% |
| MI EasyTrade Pty Ltd | Not active | Australia | 1 | 1 | 100% | 100% |
| MI Energy Pty Ltd | Not active | Australia | 1 | 1 | 100% | 100% |
| Number of wholly-owned subsidiaries | | | 4 | 4 | | |

## Note 5. Amounts recognised directly in equity

| The following amounts were recognised directly to equity: | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Actuarial loss of defined benefits plan recognised directly in equity | (210) | (609) |
| Financial asset at FVOCI revaluation losses | (90) | (118) |
| Income tax expense on items recognised directly in equity | 90 | 218 |
| **Net loss recognised directly in equity** | **(210)** | **(509)** |

## Note 6. Revenue

| **Customer Revenue** | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Fixed charges | 20,184 | 20,329 |
| Usage | 3,874 | 6,419 |
| Bulk water conveyance | 441 | 679 |
| Contract and other | 302 | 747 |
| **Total customer revenue** | **24,801** | **28,173** |
| | | |
| Water savings sales | 2,047 | 4,054 |
| **Total operating revenue** | **26,848** | **32,228** |
| | | |
| **Government and other revenue** | | |
| PIIOP – infrastructure funding | 15,214 | 34,919 |
| PIIOP – sale of water | 7,359 | 18,656 |
| Asset refurbishment | – | 16,882 |
| Customer capital contributions | 1,479 | 3,397 |
| Other | – | 1,390 |
| **Total government and other revenue** | **24,052** | **75,244** |
| | | |
| **Investment revenue** | | |
| Interest | 605 | 1,150 |
| Water allocation sales | 6,437 | 3,081 |
| **Total investment revenue** | **7,042** | **4,231** |

## Note 7. Expenses

The statement of profit or loss and other comprehensive income includes the following expenses:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Salaries and wages | 14,627 | 14,703 |
| Superannuation | 1,208 | 1,265 |
| Labour on-costs | 3,601 | 3,145 |
| **Total employment related** | **19,436** | **19,113** |
| | | |
| Legal | 142 | 268 |
| Consultants | 953 | 1,628 |
| Audit and taxation advisors | 185 | 196 |
| Environmental | 26 | 50 |
| Other | – | 4 |
| **Total contractors and consultants – operating** | **1,306** | **2,146** |
| | | |
| Insurance | 879 | 853 |
| Information Technology | 1,549 | 1,382 |
| Fees and charges | 13 | 414 |
| Bulk water conveyance | 599 | 843 |
| Water allocation purchased (associated with investments) | 29 | 2,529 |
| Other | 864 | 637 |
| **Total other** | **3,933** | **6,658** |
| | | |
| Non – infrastructure disposals | (73) | (1,170) |
| Infrastructure disposals | (412) | 1,042 |
| **Total net gain on disposal of assets** | **(485)** | **(128)** |

## Note 8. Remuneration of auditors

| | 2020 $ | 2019 $ |
|---|---|---|
| (a) Auditor of the parent entity | | |
| Audit of the financial report | 65,000 | 65,000 |
| Taxation services | 49,780 | 75,191 |
| Other assurance services | 44,808 | 23,664 |
| | **159,588** | **163,855** |
| | | |
| (b) Other auditors | | |
| Audit or review of the financial report of Hanwood Estate Property Trust | 2,863 | 1,585 |
| Other assurance services* | 22,500 | 30,354 |
| | **25,363** | **31,939** |

*Other assurance services (other auditors) relate to audits of the MIARA expenditure by Pitcher Partners.

## Note 9. Cash and cash equivalents

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Cash at bank and on hand | 14,455 | 28,172 |
| **Total cash and cash equivalents** | **14,455** | **28,172** |

Included in the above cash and cash equivalents are the following:

| | | |
|---|---|---|
| Cash held for Private Irrigation Infrastructure Operators Program (PIIOP) | – | 19,975 |
| Unrestricted operational cash | 14,455 | 8,197 |
| **Total cash and cash equivalents** | **14,455** | **28,172** |

## Note 10. Trade and other receivables

| Current trade and other receivables: | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade receivables | 5,223 | 5,411 |
| Less: Allowance for credit losses | (26) | (17) |
| | **5,197** | **5,394** |
| Other receivables | 9,178 | 10,123 |
| Less: Allowance for credit losses | – | (4) |
| | **9,178** | **10,119** |
| **Total current receivables** | **14,375** | **15,513** |
| **Total receivables** | **14,375** | **15,513** |

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. No interest is charged on trade receivables for the first 35 days from the date of the invoice. Thereafter, interest is charged at the maximum rate permissible under the *Water Management Act 2000* on the outstanding balance. In accounting for the loss allowance for trade and other receivables, the consolidated entity uses the simplified approach to recognise this equal to the expected lifetime credit losses. The consolidated entity uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

| Movement in the allowance for credit losses: | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Balance at the beginning of the year | 21 | 184 |
| Impairment losses/(gains) recognised on receivables | 5 | (163) |
| Amounts written off during the year as uncollectable | – | – |
| Amounts recovered during the year | – | – |
| **Balance at end of the year** | **26** | **21** |

## Note 11. Current assets – inventories

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| General inventory, chemicals and construction materials – at cost | 1,091 | 1,141 |
| **Total inventories** | **1,091** | **1,141** |

## Note 12. Other assets – other

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Prepayments | 804 | 1,478 |
| **Total other assets** | **804** | **1,478** |

## Note 13. Financial assets

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Financial assets at FVOCI | | 4,940 | 13,751 |
| **Total financial assets** | | **4,940** | **13,751** |
| Included in the above financial assets at FVOCI are the following: | | | |
| Financial assets held for asset reserve | 24 | – | 2,293 |
| Unrestricted financial assets at FVOCI | | 4,940 | 11,458 |
| **Total financial assets** | | **4,940** | **13,751** |
| Current | | – | – |
| Non-current | | 4,940 | 13,751 |
| **Total financial assets** | | **4,940** | **13,751** |

## Note 14. Property, plant and equipment

| Net book values: | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Land | 13,302 | 13,423 |
| Earth channels and infrastructure | 423,071 | 307,900 |
| Buildings and cottages | 9,479 | 9,300 |
| Plant | 2,527 | 1,814 |
| Office and scientific equipment | 1,190 | 1,591 |
| Motor vehicles | 1,680 | 2,046 |
| In course of construction | 11,047 | 116,673 |
| **Balance as at 30 June** | **462,296** | **452,747** |

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

| | Land ($'000) | Earth channels and infrastructure ($'000) | Buildings and cottages ($'000) | Plant ($'000) | Office and scientific equipment ($'000) | Motor vehicles ($'000) | In course of construction ($'000) | Total ($'000) |
|---|---|---|---|---|---|---|---|---|
| **Carrying amount at 1 July 2019** | **13,423** | **307,900** | **9,300** | **1,814** | **1,591** | **2,046** | **116,673** | **452,747** |
| Acquisitions | 10 | – | 599 | – | 31 | – | 23,111 | 23,751 |
| Disposals | – | (1,014) | – | (12) | (4) | (193) | – | (1,223) |
| Depreciation | – | (12,311) | (448) | (342) | (626) | (550) | – | (14,277) |
| Adjustments | (129) | 1,427 | – | – | – | – | – | 1,298 |
| Transfers in/(out) | (2) | 127,069 | 28 | 1,067 | 198 | 377 | (128,737) | – |
| **Balance at 30 June 2020** | **13,302** | **423,071** | **9,479** | **2,527** | **1,190** | **1,680** | **11,047** | **462,296** |

The consolidated entity's policy for accounting for depreciation of assets is described in Note 1(i).

## Note 15. Income taxes

**Tax benefit comprises:**

| Current tax benefit | 2020 $'000 | 2019 $'000 |
|---|---|---|
| In respect of the current year | 2,016 | 687 |
| **Total current tax benefit** | **2,016** | **687** |
| | | |
| Deferred tax benefit/(expense) relating to the recognition and reversal of temporary differences | 1,377 | (8,984) |
| Research and development tax offset | 52 | – |
| **Total deferred tax benefit/(expense)** | **1,429** | **(8,984)** |
| **Total current tax benefit/(expense) relating to continuing operations** | **3,445** | **(8,297)** |

**The benefit/(expense) for the year can be reconciled to the accounting profit as follows:**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit from continuing operations | 8,726 | 19,746 |
| Income tax expense calculated at 30% | (2,618) | (5,924) |
| Effect of revenue that is exempt from taxation | 2,184 | 1,590 |
| Under/over – R&D and tax losses | – | 216 |
| Under/over – property, plant and equipment | (34) | (1,125) |
| Reversal of prior year under/over – property, plant and equipment | 3,913 | (3,054) |
| **Income tax benefit/(expense) recognised in profit or loss** | **3,445** | **(8,297)** |

**Deferred tax balances are presented in the statement of financial position as follows:**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Capital allowances and depreciation | 51,194 | 53,418 |
| Retirement obligation | (1,287) | (1,595) |
| Employee entitlements | (1,594) | (1,417) |
| Asset impairment | (1,571) | (2,119) |
| Tax losses and research and development tax offset | (3,438) | (1,363) |
| Other | 9 | (76) |
| **Deferred tax liabilities** | **43,313** | **46,848** |

## Note 16. Intangible assets

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Water – conveyance at cost (parent entity) | 91,300 | 95,769 |
| Water – High Security and General Security | 51,501 | 48,935 |
| Water – at cost (controlled entity) | 442 | 442 |
| **Total water** | **143,243** | **145,146** |
| **Reconciliation – water** | | |
| Carrying amount 1 July | 145,146 | 144,415 |
| Water – conveyance sold during year | (4,469) | (4,808) |
| Water – High Security and General Security sold during year | (4,231) | – |
| Water – High Security and General Security acquired during year | 6,797 | 5,539 |
| **Carrying amount** | **143,243** | **145,146** |

Intangible assets are carried at the lower of their cost or cost less impairment. The consolidated entity's policy for accounting for water and impairment of assets is described in Notes 1(f) and 1(j).

## Note 17. Trade and other payables

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade payables | 2,019 | 5,564 |
| Accruals | 8,299 | 6,629 |
| **Total trade and other payables** | **10,318** | **12,193** |

Generally no interest is charged on trade payables for the first 30 days from date of the invoice. Thereafter, interest may be charged on outstanding balances. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

## Note 18. Provisions

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Environmental remediation | 27 | | |
| Opening balance | | 400 | 690 |
| Expenses | | (400) | (290) |
| **Closing balance** | | **–** | **400** |
| Employee entitlements: | | | |
| Annual leave | | 1,184 | 1,167 |
| Long service leave | | 3,425 | 3,558 |
| **Total provisions** | | **4,609** | **5,125** |
| Current | | 4,222 | 4,638 |
| Non-current | | 387 | 487 |
| **Total provisions** | | **4,609** | **5,125** |

## Note 19. Deferred revenue

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Private Irrigation Infrastructure Operators Program | 1 (d) (iv & v) | – | 4,277 |
| Other | 1 (d) (iii) | 821 | 522 |
| **Total deferred revenue** | | **821** | **4,799** |

## Note 20. Other liabilities

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Retirement benefit obligation | 21 | 1,610 | 1,296 |
| **Total other liabilities** | | **1,610** | **1,296** |
| | | | |
| Current | | – | – |
| Non-current | | 1,610 | 1,296 |
| **Total other liabilities** | | **1,610** | **1,296** |

## Note 21. Retirement benefit plans

All employees are entitled to benefits on retirement, disability or death. The entity has two retirement plans, the defined benefits plan and the accumulation plan. The accumulation plan provides benefits on accumulations based on contribution and investment income.

The defined benefits superannuation plans are administered by the Local Government Superannuation Scheme (the Scheme) in accordance with legislation. The defined benefits plans provide benefits based on years of service and final average salary. Employees contribute to the plans at various percentages of their wages and salaries. In respect of contributions to the defined benefits plans, the Company has applied the rate of employer contribution advised by the actuary and by the Scheme administrators (Local Government Superannuation Scheme).

The Scheme was established on 30 June 1997 by a Trust Deed made under an Act of the NSW Parliament for the purpose of providing retirement benefits for public sector employees of certain Local Government bodies in NSW. The Scheme has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially.

The last actuarial valuation of the Scheme was performed as at 30 June 2018 by Mercer Consulting (Australia) Pty Ltd. The next actuarial investigation is due as at 30 June 2021 and will be released in the 2021/22 financial year. However actuarial assessments are made in the intervening period for financial reporting purposes, with Mercer Consulting (Australia) Pty Ltd conducting an assessment as at 30 June 2020. The Directors rely on the reviews and valuations performed by Mercer Consulting (Australia) Pty Ltd to determine the entity's obligation in respect of its defined benefit plans.

There are a number of risks to which the plan exposes the Employer. The more significant risks relating to the defined benefits are:

| | |
|---|---|
| Interest rate risk | The present value of the defined benefit liability is calculated using a discount rate determined by reference to market yields of high quality corporate bonds. The estimated term of the bonds is consistent with the estimated term of the defined benefit obligation. A decrease in market yield on high quality corporate bonds will increase the entity's defined benefit liability. |
| Investment risk | The risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall. |
| Longevity risk | The risk that pensioners live longer than assumed, increasing future pensions. |
| Indexation risk | The risk that pensions will increase at a rate greater than assumed, increasing future pensions. |
| Salary growth risk | The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions. |
| Legislative risk | The risk is that legislative changes could be made which increase the cost of providing the defined benefits. |

A reconciliation of the entity's defined benefit obligation and plan assets to the amount presented in the consolidated statement of financial position for each of the reporting periods is presented below:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Present value of defined benefit obligations | 33,417 | 34,975 |
| Fair value of defined benefit plan assets | (31,807) | (33,679) |
| **Net liability** | **1,610** | **1,296** |

The details of the entity's defined benefit obligation are as follows:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Present value of defined benefit obligation at 1 July | 34,975 | 30,832 |
| Current service cost | 271 | 265 |
| Interest cost | 958 | 1,183 |
| Actuarial losses arising from changes in demographic assumptions | – | 106 |
| Actuarial losses arising from changes in financial assumptions | – | 4,857 |
| Actuarial (gains)/losses arising from liability experience | (58) | 664 |
| Benefits paid | (2,601) | (1,814) |
| Taxes, premiums and expenses paid | (128) | (1,118) |
| **Defined benefit obligation 30 June** | **33,417** | **34,975** |

The reconciliation of the balance of the assets held for the defined benefit plans is presented below:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Fair value of plans assets at 1 July | 33,679 | 23,628 |
| Interest income | 924 | 1,033 |
| Actual return on fund assets less interest income | (268) | 5,017 |
| Employer contributions | 201 | 6,933 |
| Benefits paid | (2,601) | (1,814) |
| Taxes, premiums and expenses paid | (128) | (1,118) |
| **Fair value of plans assets 30 June** | **31,807** | **33,679** |

All Division B, C and D assets are held in Pool B of the Scheme. As such, assets are not separately invested for each employer and it is not possible or appropriate to disaggregate and attribute fund assets to individual entities, and the disclosures below relate to total assets of Pool B of the Scheme.

| | Total ($'000) | Quoted prices in active markets for identical assets Level 1 ($'000) | Significant observable inputs Level 2 ($'000) | Unobservable inputs Level 3 ($'000) |
|---|---|---|---|---|
| Unlisted and listed Securities Employer | 1,823,188 | 1,377,480 | 414,144 | 31,564** |
| Unlisted and listed Securities Member Investment Choice | 1,590,207 | * | * | – |
| **Total** | **3,413,395** | | | |

**The split of the Member Investment Choice assets by level is not available*
***Value of Challenger annuity policy held by Trustee valued on the AASB119 basis.*

As shown in the table above some Local Government Super assets are invested in accordance with member investment choices. For Local Government Super assets supporting the Employer Reserve, the percentage invested in each asset class at the reporting date is:

| | 2020 | 2019 |
|---|---|---|
| Equities | 55% | 59% |
| Property | 12% | 12% |
| Fixed Income | 19% | 16% |
| Cash | 7% | 10% |
| Other | 7% | 3% |
| **Total** | **100%** | **100%** |

The significant actuarial assumptions used for the valuation are as follows:

| | 2020 | 2019 |
|---|---|---|
| Discount rate at 30 June | 2.85% | 2.85% |
| Salary growth rate | 3.50% | 3.50% |
| Expected rate of CPI increase | 2.50% | 2.50% |

## Note 22. Contributed equity

(a) Ordinary shares – fully paid

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Contributed equity** | **273,734** | **273,734** |

Shares are cancelled as a result of transformation of water entitlement out of Murrumbidgee Irrigation Limited's water access licences. There is no impact on contributed equity.

(b) Movement in number of shares

| | 2020 Shares No. | Terminated or cancelled shares No. | 2019 Shares No. |
|---|---|---|---|
| A Class Shares | 226,245 | (2,425) | 228,670 |
| B Class Shares | 545,169 | (8,869) | 554,038 |
| C Class Shares | 15,144 | (430) | 15,574 |
| **Total ordinary shares** | **786,558** | **(11,724)** | **798,282** |

(c) Voting rights

| | 2020 | 2019 |
|---|---|---|
| Voting rights attached to A Class shares | 1,382 | 1,381 |
| Voting rights attached to B Class shares | 934 | 1,008 |
| Voting rights attached to C Class shares | – | – |

The Constitution prescribes one vote per landholding.

A Class and B Class shareholders have voting rights at general meetings and for the election of Member Directors in their voting college. Where a shareholder holds both A Class and B Class shares, the holder votes in the college in which they hold the greater number of shares.

C Class shareholders generally have no voting rights other than in respect of matters affecting their class rights.

(d) Rights to assets

Shares carry no rights to, or have residual interest in, any assets remaining on the winding up of the Company.

## Note 23. Retained earnings

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Retained earnings at the beginning of the financial year | | 262,766 | 251,743 |
| Adjustment on adoption of AASB 15 | | (19,116) | – |
| Total comprehensive income for the year | | 12,024 | 11,023 |
| **Retained earnings at the end of the financial year** | | **255,674** | **262,766** |

## Note 24. Reserves

| | Notes | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Asset reserve at the beginning of the year | | 51,236 | 51,236 |
| **Asset reserve at the end of the year** | | **51,236** | **51,236** |
| | | | |
| Financial asset at FVOCI revaluation reserve at the beginning of the year | | (8) | 75 |
| Financial asset at FVOCI revaluation losses | | (63) | (83) |
| **Financial asset at FVOCI reserve at the end of the year** | | **(71)** | **(8)** |
| | | | |
| **Total reserves at the end of the year** | | **51,165** | **51,228** |
| | | | |
| Asset reserve is funded by the following investments: | | | |
| Water investments | 16 | 51,165 | 48,935 |
| Financial assets | 13 | – | 2,293 |
| **Total funding** | | **51,165** | **51,228** |

The purpose of the asset reserve is to set aside funds for future investment in infrastructure. The revenue that MI derives from financial and water investments funds the ongoing asset renewal program of the business.

Water investments are held at the lower of cost and net realisable value. As at 30 June 2020, the market value of the water investments was approximately $146,000,000.

## Note 25. Financial instruments

The consolidated entity's activities expose it primarily to the financial risks of liquidity, credit risk and interest rate risk.

The directors and senior management are responsible for monitoring and managing the financial risks of the consolidated entity. They monitor these risks through monthly board meetings where monthly management reports are presented and analysed.

The consolidated entity manages its capital to ensure that entities in the consolidated entity will be able to continue as going concerns while maximising the returns to the consolidated entity through the optimisation of investment opportunities.

The consolidated entity's overall strategy remains unchanged from 2019. The consolidated entity's financial instruments consist mainly of deposits with banks, fixed and floating rate notes, accounts receivable and accounts payable. The Company is exposed to the following risks through holding financial instruments:

(a) **Credit risk exposures:** Credit risk is the risk of financial loss to the consolidated entity if a party to a financial instrument fails to meet its contractual obligations. In respect of its cash and term deposits, the consolidated entity manages its risk by the application of the consolidated entity's investment policy which requires capital guaranteed investment with Standard and Poor's BBB rated investment houses. In respect of trade debtors, the credit risk is largely mitigated by the security described at Note 1 (f). The consolidated entity establishes allowances for impairment when it is expected that any receivables are not considered collectible.

The maximum exposure to credit risk as at balance date is the carrying amount as disclosed in the statement of financial position.

(b) **Liquidity risk management:** Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due.

The consolidated entity has both short and long term facilities which enable sufficient cash to be available to settle obligations as they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which is continuously reviewing practices with the purpose of establishing an appropriate liquidity risk management framework for the consolidated entity's short, medium and long term funding and liquidity management requirements.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Due to the dynamic nature of the underlying businesses, the consolidated entity aims at maintaining flexibility in funding by keeping committed credit lines available. The credit risk on liquid funds is limited because the investment houses are banks with high credit ratings assigned by international credit rating agencies.

(c) **Net fair value of financial assets and liabilities:** The directors consider that the carrying amount of financial assets and financial liabilities recognised at amortised cost in the financial statements approximates their fair values.

## Note 26. Key management personnel compensation

(a) The directors and other members of key management personnel of the consolidated entity during the year were:

**(i) Directors**

| | |
|---|---|
| Non-executive Chair: | J I Dalton |
| Non-executive Directors: | P C Borrows, L E Boully (to 11/11/2019), M K Carter (from 11/11/2019) H P Cudmore, J I Dalton, K L Dalton, A J Sergi, F S Sergi (to 11/11/2019), T C Valenzisi (from 11/11/2019) |
| Managing Director: | B A Jones |

**(ii) Leadership team**

| | |
|---|---|
| B A Jones | Chief Executive Officer |
| H E Bourne | General Manager Finance and ICT |
| S J Hansen | General Manager Customer Services |
| K J Hutchinson | General Manager Policy and Stakeholder |
| D P Radue | Company Secretary/General Manager Corporate Services |
| J J Rudd | General Manager Asset Delivery |
| A P Shea | General Manager Operations |

(b) Key management personnel compensation:

| (i) Directors (excluding Managing Director) | 2020 $ | 2019 $ |
|---|---|---|
| Short-term benefits | 398,670 | 394,169 |
| Post-employment benefits | 37,874 | 37,446 |
| **Total compensation** | **436,544** | **431,615** |

| (ii) Leadership (including Managing Director) | 2020 $ | 2019 $ |
|---|---|---|
| Short-term benefits (including payment of leave entitlements on termination) | 2,077,648 | 1,881,078 |
| Post-employment benefits | 143,308 | 155,150 |
| **Total compensation** | **2,220,956** | **2,036,228** |

(c) Equity instrument disclosures for key management personnel:

The aggregate numbers of shares in the Company at balance date that key management personnel have an interest in were:

| Ordinary shares | 2020 | Movement | 2019 |
|---|---|---|---|
| A Class | 1,523 | (1,506) | 3,029 |
| B Class | 5,115 | – | 5,115 |
| C Class | 2 | 2 | – |
| **Total ordinary shares** | **6,640** | **(1,504)** | **8,144** |

(d) Other transactions with key management personnel

As active irrigator shareholders of the Company a number of key management personnel entered into normal commercial transactions for the supply of water and drainage services in accordance with the Water Entitlements and Water Delivery Contracts.

| Value of transactions | 2020 $ | 2019 $ |
|---|---|---|
| Water supply and drainage services | 242,399 | 280,537 |
| Receivable balance at reporting date | 19,217 | 7,678 |

(e) Loans to key management personnel

There are no loans to key management personnel.

## Note 27. Environmental remediation

A provision was raised in the 2014/15 year for remediation costs for sites that have been identified as contaminated. The provision is based on management's estimate of costs derived from knowledge gained from remediation work performed in previous years. All sites have now been fully remediated and the balance as at 30 June 2020 was $NIL (2019: $400,000).

## Note 28. Commitments

| **Capital commitments** | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Commitments for the acquisition of plant and equipment contracted for at the reporting date, but not recognised as liabilities. | 5,514 | 17,912 |

## Note 29. Events occurring after balance date

At the date of this report, no matter or event has occurred since the balance date that is likely to materially impact the state of affairs of the consolidated entity in the short term.

## Note 30. Contingent liabilities

The consolidated entity is not aware of any contingent liabilities at the reporting date.

## Note 31. Operating leases

The Group's future minimum operating lease payments are as follows:

| **Minimum lease payments due** | 2020 $'000 | 2019 $'000 |
|---|---|---|
| With 1 year | – | 29 |
| 1 to 5 years | – | – |

Lease expense during the period amounts to $26,344 (2019: $108,338) representing the minimum lease payments.

# Directors' declaration

The directors declare that the financial statements and notes set out on pages 28 to 57:

(a) comply with Accounting Standards – Reduced Disclosure Requirements, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date.

In the directors' opinion:

(c) the financial statements and notes are in accordance with the *Corporations Act 2001*; and

(d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

**James (Nayce) Dalton**
Chair

Hanwood, NSW
27 August 2020

# Independent auditor's report

**Grant Thornton Audit Pty Ltd**
Level 22 Tower 5
Collins Square
727 Collins Street
GPO Box 4736
Melbourne VIC 3008

T +61 3 8320 2222

## Independent Auditor's Report

### To the Members of Murrumbidgee Irrigation Limited

#### Report on the audit of the financial report

**Opinion**

We have audited the financial report of Murrumbidgee Irrigation Limited and controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

**Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner - Audit & Assurance

Melbourne, 27 August 2020

# Company directory

as at 27 August 2020

## Murrumbidgee Irrigation Limited

| | |
|---|---|
| **ABN** | 39 084 943 037 |
| **Directors** | Nayce Dalton<br>Hayden Cudmore<br>Peter Borrows<br>Michael Carter<br>Kaye Dalton<br>Tony Sergi<br>Tracey Valenzisi<br>Brett Jones |
| **Company Secretary** | Dorian Radue<br>Helen Bourne |
| **Registered office and Share Register** | 86 Research Station Road<br>Hanwood NSW 2680<br>Tel: 02 6962 0200 |
| **Leeton office** | Dunn Avenue<br>Leeton NSW 2705<br>Tel: 02 6953 0100 |
| **Postal** | Locked Bag 6010<br>Griffith NSW 2680 |
| **Website** | www.mirrigation.com.au |
| **Email** | info@mirrigation.com.au |
| **Auditor** | Grant Thornton<br>Melbourne VIC 3000 |
| **Bankers** | Commonwealth Bank of Australia<br>Leeton NSW 2705 |
| **Insurance brokers** | Arthur J. Gallagher<br>North Sydney NSW 2060 |

Murrumbidgee
Irrigation