

Irrigation in the Murray-Darling Basin: Financial performance in 2006-07

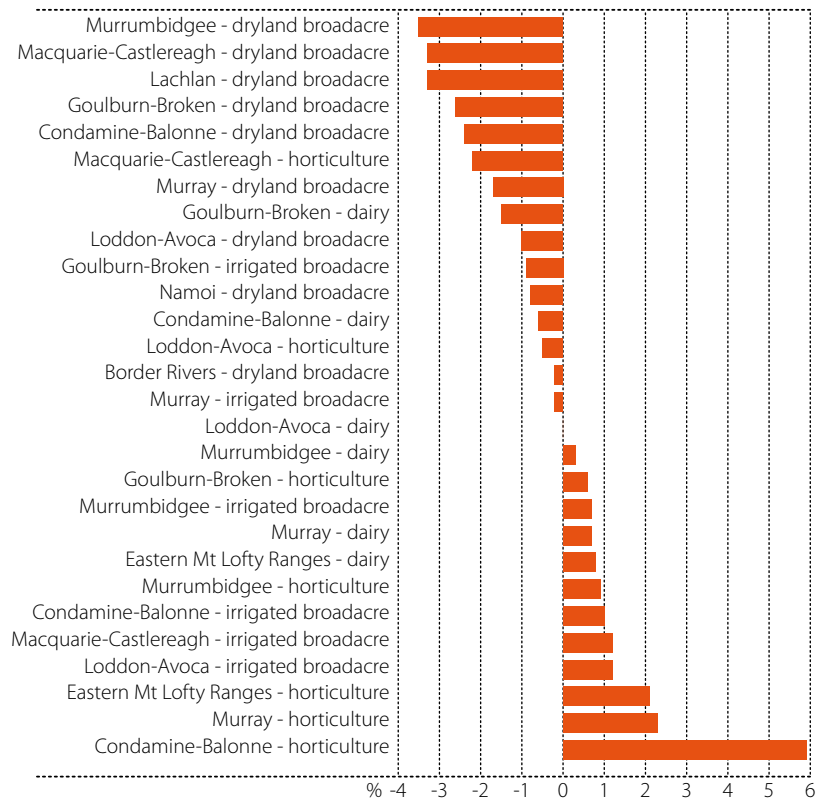
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- In 2006-07 ABARE commenced a program of surveying irrigation farms across 10 regions of the Murray-Darling Basin.
- The prolonged drought affecting much of the Murray-Darling Basin has resulted in significant reductions in water allocations to irrigations farms situated within the Basin. The effect of these reductions on the financial performance of irrigators has varied across the Basin by region and industry.
- The survey results show there was diversity in the financial returns of irrigators across the Murray-Darling Basin such that there were no industries or regions with significantly better or worse financial results than the others in 2006-07.
- This report presents results from a detailed analysis of farm financial performance within the Murray-Darling Basin. The purpose of this study was to identify the regions and industries within the Basin facing the greatest pressure for structural adjustment, based on irrigators' financial situations.

Farm performance

- The financial performance of Australian farms (including both dryland and irrigated farms) fell sharply in 2006-07 as severe drought across most of southern Australia led to a significant reduction in farm production and incomes. The effect of reduced incomes varied across the regions and industries of the Murray-Darling Basin.
- Overall, dryland broadacre farms had the lowest financial performance, with the Murrumbidgee, Macquarie-Castlereagh, Lachlan, Goulburn-Broken and Condamine-Balonne regions having the lowest average rates of return in 2006-07.
- Among the irrigated industries, horticulture farms in the Macquarie-Castlereagh region, and dairy and broadacre farms in the Goulburn-Broken region had the lowest average rates of return in 2006-07. In contrast, irrigated horticulture farms in the Condamine-Balonne, Murray and Eastern Mount Lofty Ranges regions had the highest average rates of return in 2006-07.
- Although financial data for irrigators for the 2007-08 financial year was not available at the time of preparing this report, it is likely that overall farm financial performance for irrigators in the Murray-Darling Basin would have been remained weak in 2007-08 because of lower irrigation water allocations. Results from the 2007-08 survey collection are currently scheduled to be available by June 2009.

Rate of return, by region and industry, Murray-Darling Basin, 2006-07 ^a



^a Rate of return to capital, excluding capital appreciation.
Source: ABARE survey of irrigation farms in the Murray-Darling Basin.

Performance by income and equity

- Around 30 per cent of irrigation farms had low income and low farm equity in 2006-07. These farms are likely to be facing the greatest financial pressures, often because of large farm business debts and poor debt servicing ability. Many of these farms were supported by off-farm income in 2006-07.
- Around 20 per cent of irrigation farms had high farm business equity and relatively high farm income in 2006-07. These farms have relatively low farm business debt and were not unduly burdened by the need to meet interest payments in 2006-07.
- Around 15 per cent of irrigation farms had low farm business equity but relatively high farm income in 2006-07. For some of these farms, their low equity was partly a result of making new investments, but high incomes in the survey year made them well placed to service their debts.
- Around 35 per cent of irrigation farms had high farm business equity but low income in the survey year. Many of these farms are likely to have had to erode their equity position by taking on more debt.

Report: Hooper, S and Ashton, D 2009, *Irrigation in the Murray-Darling Basin: Financial performance in 2006-07*, ABARE research report 09.8, Canberra, May.