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Wholesale Water Levy

Discussion Paper on How the Levy is Set

1. Introduction

A report to the Wellington Regional Council's (WRC) Policy and Finance Committee in June this year concerned setting the wholesale water levy for 2000/2001. It also indicated a possible review of how the levy is portrayed. One paragraph in the report stated:

As currently expressed, the levy is an invoiced amount for the year, paid in 12 monthly amounts. It does not however represent the amount which should be reported in a customer's financial accounts for the year because of the way end of year adjustments are accounted for in the following year. It is proposed to discuss this issue with our customers over the coming year with a view to moving from cash accounting to accrual accounting. This will not affect the amount each customer pays.

This discussion paper addresses this issue.

2. Analysis

As present the bulk water levy for each city set at the start of each financial year is effectively made up of two different dollar amounts. Namely, the estimated amount payable for the financial year about to start and an end of year adjustment for the year just finished. This end of year adjustment for each city is either a debit or a credit. Overall the debits and credits balance so there is no net gain or loss to the WRC.

To complicate the issue the metering year, on which water consumption and percentages of the total supply are based, starts on the first Wednesday in April and ends on the last Wednesday in March in the following year.

Each city pays a share of the total WRC revenue requirement, based on its percentage of the total consumption.

How the levies and end of year adjustments are calculated is perhaps best illustrated by an example.

Year 1 Levy

Assuming it is the very first year of a new wholesale water supply system:

Required WRC revenue = \$20M

City	Estimated Annual Consumption ML	%	Initial Levy \$M
Porirua (PCC)	5,000	10	2.0
Upper Hutt (UHCC)	5,000	10	2.0
Hutt (HCC)	15,000	30	6.0
Wellington (WCC)	25,000	50	10.0
Total	50,000	100	20.0

At the end of the 1st year consumptions may have been recorded as follows:

City	Consumption ML	% of total
PCC	4,500	9
UHCC	5,500	11
HCC	13,500	27
WCC	26,500	53
	50,000	100

This results in an end of end adjustment calculations as follows:

City	Assumed % at start of year	Actual % for the year	Levy actually paid during the year \$M	Levy which should have been paid during the year \$M	Adjustment \$M
PCC	10	9	2.0	1.8	-0.2 refund
UHCC	10	11	2.0	2.2	+0.2 to pay
HCC	30	27	6.0	5.4	-0.6 refund
WCC	50	53	10.0	10.6	+0.6 to pay
	100	100	20.0	20.0	0

In accrual accounting terms the refunds, or amounts owing, are included in the individual city council financial accounts for the year ended 30 June of the 1st year.

Year 2 Levy

Assume the WRC required revenue for the second year remains at \$20M.

Actual consumption percentages in year 1 are now used in setting the year 2 levy. However, the end of year adjustments are also included in the levy setting process.

City	Previous year's actual %	Column A Amount to be paid in year 2 \$M	Year end adjustment from year 1 \$M	Column B Levy for year 2 \$M
PCC	9	1.8	-0.2	1.6
UHCC	11	2.2	+0.2	2.4
HCC	27	5.4	-0.6	4.8
WCC	53	10.6	+0.6	11.2
	100	20.0	0	20.0

Expressing the levy charge between years 1 and 2

Based on Column B, the changes in levy between years 1 and 2 are:

City	Year 1 levy \$M	Year 2 levy \$M	Change
PCC	2.0	1.6	-20%
UHCC	2.0	2.4	+20%
HCC	6.0	4.8	-20%
WCC	10.0	11.2	+12%

Levy percentage changes are expressed in this way at present. The percentage changes though are distorted as they are based on a levy for year 2, which also includes the end of year adjustment from year 1.

Basing levying changes between years on Column A results in the following:

City	Year 1 levy \$M	Year 2 levy \$M	Change
PCC	2.0	1.8	-10%
UHCC	2.0	2.2	+10%
HCC	6.0	5.4	-10%
WCC	10.0	10.6	+6%

The changes are now more reflective of the actual situation.

3. Options

3.1 Status Quo

Continue with the present situation. The four city customers account for the expenditure in accordance with their current financial practises.

Percentage changes in the levy amount between years, as advised by the WRC, would continue to give a distorted picture of the actual accounting position.

3.2 A New Procedure

When the WRC sets the wholesale water charges, usually in June, it could set two types of levies:

- the levy for the following year
- the adjustment levies for the financial year about to end

The financial outcome though is the same as the status quo. From a presentational perspective it is different. The levy invoices to customers would include two amounts.

- the monthly levy payment for the current year
- one twelfth of the adjustment from the previous year (a debit or credit)

This then ties up with accrual accounting procedures.

4. Discussion

The possible change outlined in 3.2 is in line with current accounting procedures, the status quo situation is based on “cash accounting”. Also, the percentage changes published for each customer when the levy is set are more representative of the actual situation. This may assist our customers in presenting the changes to their Councillors.

Water supply managers of the four cities are provided with weekly consumption information. This also includes a page showing the “levy” on a year to date basis, based on consumption to date. This can be compared with the levy set prior to the start of each year. Some judgement is needed though as the consumption in the cities, relative to each other, vary slightly throughout the year. Patterns are also influenced by the amount of summer rainfall.

It is recommended there is a change in how the levy changes between years is expressed as outlined in option 3.2.

Implementing the change will require a customer consensus.