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**Report 01.300**

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Report to the Utility Services Committee  
From Murray Kennedy, Strategy and Asset Manager

## **Method for Setting the Wholesale Water Levy**

### **1. Purpose**

To approve a change in the way the wholesale water supply levy is set.

### **2. Background**

The activities of the Water Group of the Regional Council are heavily influenced by the Wellington Regional Water Board Act 1972 (WRWBA). Other relevant acts include the Local Government Act and the Resource Management Act.

The supply of water, to our four city customers, is governed by the WRWBA. At the time the WRWBA was passed in 1972, local authorities essentially reported their financial affairs through a cash accounting approach. Since its inception in 1989 Wellington Regional Council (WRC) has adopted accrual accounting. Accrual accounting is now mandatory for all local authorities.

The wholesale water levy setting process currently involves a mix of cash accounting and accrual accounting. The result is a relatively complicated process which is not easy to explain. Wholesale water levies for each city are set before the start of each financial year. The amounts include a debit or credit, being the end of the year adjustment from the previous financial year. It is these debits and credits which complicate the calculation. In effect there is a “lag” in the system whereby the adjustments are not made until the following year. A discussion paper, Attachment 1, provides additional information. Also, our customers are not able to obtain anything meaningful by comparing their water levy in one year with the levy for the following year. This is because of the way the end of year adjustment process is currently incorporated into the levy amount for the following year.

### **3. Proposal**

It is proposed that setting the water levy will become a two part process. Firstly, the wholesale water levy will still be set before the start of each financial year. Secondly and at the same time as the levy is set, the end of year adjustment relating to the year

just completed will be approved by the WRC. This adjustment is required because the percentage of the total water quantity estimated at the start of the year, for each city, is never the same as the actual percentage of the water used during the year.

These debits and credits are intercity, they do not impact on the Water Group's total revenue or cash flow. In July each year it is intended that the WRC will send cheques to the city(s) which are owed money and at the same time invoice the other city(s) for amounts owing. The sum of the cheques equalling the invoiced amounts.

Once the changes are made it will be possible to provide a direct comparison of the levy amount for each city between financial years. This is because the end of year adjustment has been separated from it.

#### 4. **Consultation**

The four city customers have been consulted about the change and have agreed to it. Our customers were given a copy of the appendix, as part of the consultation process.

#### 5. **Legal Opinion**

Section 86 of the WRWBA states:

86. *Water Supply –(1) The board shall charge the constituent authorities a uniform charge for water supplied to those authorities under this Act.*

*(2) The amount payable by each constituent authority to recover the net expenditure chargeable in respect of the water supply account under section 85 of this Act shall be calculated by the Board on the basis of a peak or total consumption or a combination of both in such manner as the Board, after consultation with the constituent authorities, from time to time determines.*

*Provided that, for the purpose of this subsection, actual peak or total consumption during any period may be adjusted if it is unusually high owing to any circumstances beyond the control of the constituent authority.*

*(3) Charges for water shall be payable by the constituent authorities to the Board by such instalments and at such times as the Board, after consultation with the constituent authorities, from time to time determines.*

Our legal advisors, Oakley Moran, have confirmed that the proposed changes to the levy payment system comply with the WRWBA.

**6. Funding Policy**

The proposed changes do not constitute a change to the Council's funding policy.

**7. Communications**

As the proposed change is an administrative issue it is unlikely to be of public interest.

**8. Environment**

There are no environmental considerations.

**9. Recommendations**

*(1) That the report be received and the contents noted.*

*(2) That the Committee recommends to the Policy and Finance Committee:*

- (i) The end of year water levy adjustment should be separate from the water levy which is set for the following financial year.*
- (ii) The end of year water levy adjustments (invoices and payments) are accounted for in the financial year in which the adjustments relate.*

Report prepared by:

Approved for Submission:

M D KENNEDY  
Strategy and Asset Manager

DAVID BENHAM  
Divisional Manager, Utility Services

TED MAGUIRE  
Council Secretary

GREG SCHOLLUM  
Chief Financial Officer

Attachment 1: Wholesale Water Levy: Discussion paper on how the levy is set  
Attachment 2: Legal opinion from Oakley Moran  
Attachment 3: Letters and emails from the four city councils