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Issue 31
Valuation of water

WATER

by Anne Harrison

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Industry and product classification

1. During the third AEG meeting in Bangkok, when the paper on the treatment of water as an asset and its valuation was discussed, a question was raised about the industrial classification of the distribution of water. The editor undertook to consult with classification experts on this. The position is the following.
2. According to ISIC and CPC, water when delivered is a good. So is water as the result of a purification or bottling process. The act of distributing water via a mains distribution system is a service.
3. In the discussions leading up to the revision of the SNA in 1993, the question of fetching water by hand from a well or other water source was discussed and it was agreed that this activity should be treated as the production of a good and the valuation should reflect the cost of purchasing water not an imputation of the time taken to fetch it. Para 6.24 reads in part "The supply of water is also considered a goods- producing activity in this context. In principle, supplying water is a similar kind of activity to extracting and piping crude oil." The paragraph discusses the collection of firewood also to be included in the production boundary.
4. No proposal to change the convention that fetching water and collecting firewood should be within the production boundary has been put forward. To underline the consistency of the position with ISIC and CPC, some rephrasing of para 6.24 could be made to emphasis that it is water or firewood available at the desired location which is a good and has a potential value. The act of carrying the water or wood is not in itself a good and when it is a household service performed on own account the time spent carrying the water or wood does not have an imputed value.

Fees to discharge waste water

5. A further question regarding the treatment of water was raised in the Canberra 11 Group in October. When a fee is paid to discharge waste water into a body of water, how should this fee be treated? The Canberra II Group recommended that if the payment was a fine intended to inhibit discharge, it should be treated as a fine. If a limited number of permits is issued with the intent to restrict discharges, the payment should be treated as a tax if the medium into which the water was discharged was not regarded as an asset in the system. If the discharge medium is an asset; then the treatment of the permit should be as for mobile phone licences if the six qualifications for the treatment of a permit as an asset are met. IF they are not met, the payment should be regarded as property income.
6. The Canberra II Group was uncertain on how to treat a payment linked to remedial action and referred the question to the TFHPSA. There it was recommended that the charge represents a payment for a service unless the amount levied is out of all proportion to the costs involved in subsequent water treatment in which case the payment should be treated as a tax.

Questions for the AEG

1 Do you agree with the proposal to amend the wording of para 6.24 to ensure there is consistency on the classification of water as a good and its transport as a service but without changing the existing convention on including the carrying of water within the production boundary?

2 Do you agree that

- i. if a payment to discharge water is a fine intended to inhibit discharge, it should be treated as a fine;
- ii. if a limited number of permits is issued with the intent to restrict discharges, the payment should be treated as a tax if the medium into which the water is discharged is not regarded as an asset in the system;
- iii. if the discharge medium is an asset; and the necessary conditions are met concerning the terms on which discharge is permitted, then the treatment of the payment for the permit should be in the same way as a licence to use the radio spectrum is used for mobile phones;

if the charge is linked to remedial action, this represents a payment for a service unless the amount levied is out of all proportion to the costs involved in subsequent water treatment in which case the payment should be treated as a tax.