Comhshaol, Pobal agus Rialtas Áitiúil
Environment, Community and Local Government

Fact Sheet 1: Financing Irish Water

Irish Water is a regulated utility and its operating and capital cost plans are reviewed by the Commission for Energy Regulation (CER). The CER has approved an "allowed revenue" to end 2016 - this represents the total costs (including depreciation and return on capital employed) which Irish Water can recover from customers' bills (domestic and non-domestic), taking account of Government subvention. The CER has set challenging efficiency targets for Irish Water for the initial period to end 2016 on both its operating and capital costs and it did not approve the entirety of the operating costs sought by the company.

In reviewing the charging regime, the Government has

(a) Re-considered the policy parameters applying to the use of the subvention to be provided to Irish Water in order to make charges more affordable, reducing the average charge and reducing higher charges significantly. These changes will be effected by primary legislation as a transitional measure, recognising that the scale of the reform requires this period of certainty for customers, as the new utility is bedded down. The enduring regulatory model (in particular the CER review of cost and capital investment) remains as set out in the Water Services (No. 2) Act of 2013;

(b) Set capped charges for households in the period to 2018, which will result in a lesser revenue from domestic customers than originally envisaged (€77 million in 2015 and 2016), and no revenue in respect of 2014; and

(c) Changed the approach to the treatment of water infrastructure for commercial rates purposes, such that subvention does not need to be paid to Irish Water to fund this cost, and equivalent support is given directly to the local authorities through the Local Government Fund.

€ million (forecast)	**2015**	**2016**
Allowed Revenue approved by the CER on 30 September 2014	958	1052
Adjustment to reflect the change in Commercial Rates treatment	- 59	- 59
Revised Allowed Revenue	**899**	**993**
Made up of		
Revised Government Operational subvention excluding a working capital loan to Irish Water	*399*	*479*
• Domestic Billed Income	271	274
• Non-Domestic Billed Income	229	240
• *Customer Billed*	*500*	*514*
Government as a % of total revenue	44.38%	48.24%

The operational subvention to Irish Water is expected to continue to be made from the Local Government Fund.

The key benefit arising if Irish Water is considered off the Government balance sheet is that it can borrow for investment from commercial lenders in a manner similar to ESB/Bord Gáis and other commercial State bodies, such that this borrowing and related expenditure would not impact on the General Government Deficit. This flexibility is expected to lead to an overall increase in available funding for the water capital programme without impacting on the public finances. If Irish Water was considered to be part of Government in 2015/2016, this would add 0.3% to the General Government Deficit in each of these years. Ultimately the decision on the classification of Irish Water and associated government expenditures will be a matter for Eurostat.

Operating Costs

Of Irish Water's total allowed revenue, an element relates to depreciation and return on capital employed – this component is expected to increase in the medium term as the level of investment in water services infrastructure increases. Irish Water's underlying operating costs (the other component of allowed revenue) have been carefully examined by the CER and demanding requirements have been set which require Irish Water to reduce their operating costs by 7% annually to end 2016 or just over €50 million per annum. Irish Water is already making progress on achieving these targets by implementing the single national utility model and has, for example, achieved €12 million savings in 2014 through standardised procurement of goods and services.

Irish Water's costs will again be reviewed for the period from 2017 onwards and the Regulator will be examining the scope for further efficiency savings. Irish Water's costs will again be reviewed for the period from 2017 onwards and the Regulator will be examining the scope for further efficiency savings. Irish Water, under the stewardship of the new unitary Ervia Board, will publish in early 2015 a new plan for ambitious reductions in operational costs to be delivered by the end of 2018.

Capital Spending

The enhanced ability to raise commercial debt will allow Irish Water to invest in an expanded capital programme. The CER has indicated as part of the 2015-2016 plan, that if Irish Water is successful in achieving 100% funding for its €1.77 billion capital programme, the full value of the efficiently incurred expenditure will be allowed. The CER is requiring Irish Water to achieve an efficiency target of 7% per annum on new projects progressed by the company in the period to end 2016. Through a national and regional strategic approach to capital investment, Irish Water will secure significant savings on capital delivery, such that for any given quantum of money more investment can be achieved. This is reflected in the projected capital spending in the years ahead set out below. Examples of this approach are already being seen, in the planning of the upgrade of the Ringsend Waste Water Treatment Plant, where Irish Water expects to make savings of €170 million on the expected costs through use of more innovative technology and approach to design.

€240 million was allocated to Irish Water by Government for capital purposes in 2014, and the payment of €222 million of capital funding for 2015 will be made before year end. Some €184 million will be provided in 2016. The balance of Irish Water's capital funding requirements in 2015 and 2016 will be met by raising debt.

Benefits of New Financial Model

- New revenue from charges set at an affordable level facilitate increased future investment and allow Irish Water to access funding from capital markets;
- Some €6 billion expected to be spent on capital investment from 2014-2022 by Irish Water;
- Better balance can be achieved between planned maintenance and capital investment providing for better value for money, with capacity to fast track improvements;
- More infrastructural improvements can be gained from the same quantum of money – through economies of scale, new process options, innovation of design, rationalisation of schemes and greater strategic understanding of the asset base; and
- Limiting the impact on public finances, provides Government with capacity to invest in other areas of social and economic infrastructure.