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EUROSTAT

Directorate D: Government Finance Statistics (GFS) and quality

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Subject: Follow up of the EDP dialogue visit to Ireland at November 2014 - The classification of Irish Water

Dear Ms Banim,

Following your email on the classification of Irish Water, please find enclosed our assessment. We consider that Irish Water should be classified in S.13 (inside the government sector) and we expect this classification to be reflected already in the April 2015 EDP notification.

The main factors behind our decision are as follows:

1. Autonomy of decision

Irish water will be controlled by the government for the reasons summarised by the CSO. In addition to that, not only the price of the charges will be decided by a government entity (with the water charges, through the Water Services Act, being already fixed until 2018) but the Minister will also be entitled to substantial powers as far as the running of Irish Water is concerned, with Ministerial Consent being explicitly required for a panoply of decisions to be taken, as explained in the Memorandum and Articles of Association of Irish Water, including the possibility of borrowing, providing guarantees or altering the Memorandum of Association of the company. Moreover, section 32 states that at any time Irish Water may be directed to carry out functions in line with government policy.

2. Support of the government and the service level agreement

It is acknowledged that government will provide a constant support to Irish Water throughout the years via subsidies, equity, capital contributions and loans. Moreover, most employees working for Irish Water will be the personnel of the local authorities, via service level agreement between Irish Water and local authorities. The personnel of the local authorities will continue to do for Irish Water most of the activities they were already undertaking for the local authorities. In this respect, Eurostat would like to receive a copy of a few of these service level agreements in order to assess the market nature of the services provided by the local authorities to Irish Water.

3. Respect of the 50% rule

In order to be considered as sales in the 50% market/non-market test, prices must be economically significant. In the case of Irish Water, the structure of the prices and the different subsidies from government, joined with the cap on water charges at a relatively low level, result in the fact that the prices charged for the water supply do not seem to have *"a substantial influence on the amounts of products producers are willing to supply and on the amounts of products that the purchasers wish to acquire"* (ESA2010 20.19). Moreover, Eurostat has doubts on whether the child allowance can be considered as a subsidy on product by government, given the fact that it is not based on effective consumption.

Moreover, it is to be underlined that the prices charged by the local authorities for connection charges varied from one local authority to the other, depending mostly on the *"cost of their capital programme for water services, the cost of operating their treatment plans and the cost of administering the metering/billing elements"*. It is clear, therefore, that the existing charges for the foreseeable future will be simply based on the cost of providing the services, completely in line with the previous system applied by the local authorities and as such cannot be considered as an economically significant price. Some elements of the above can also be found for the non-domestic water charges, which were in existence prior to the establishment of Irish Water, with each local authority being free to set its own charges, and which will *"continue to apply for the foreseeable future until CER is provided with the necessary information so that it is in a position to consider the manner and method by which charges are calculated"*.

Elements of uncertainties

Finally, it is to be underlined that even notwithstanding all the previous points, there are several elements of uncertainties that would put into doubt the calculations undertaken in the material presented by the CSO and which could affect the market/non-market test. These are:

- the fact that even by 2016 only 70% of homes are supposed to be metered;
 - the fact that legislation will have to be passed to enhance collectability of water charges;
 - the fact that high savings have been foreseen until 2021 in operating costs [REDACTED] and efficiencies in capital delivery [REDACTED] which might, or might not, materialise,
 - the fact that *"there is currently no detailed data available to distinguish between different categories of non-domestic customers (i.e commercial/individual vs public sector) and therefore the amount billed to public sector (government) bodies cannot be reliably ascertained"*;
 - if and when legislation will be approved in order to enhance collectability of water charges.
- In this respect, it is to be underlined that according to the CSO, it *"might be considered that the level of public disquiet around the introduction of water charges may have an impact on the realisation of these revenues"*. Although it is correct that, in general, sales to be recorded in national accounts are those on an accrual basis, this cannot obviously be applied in a situation of high relative uncertainty of such sales, for which therefore another kind of

recording (possibly based on cash) is to be preferred for the benefit of performing the 50% market/non market test).

Conclusion

It is Eurostat opinion that, in view of all the above, Irish Water must at present be classified inside the general government.

Yours sincerely,

(e-Signed)
Eduardo Barredo Capelot
Director

