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Lead topic: Irish Water Funding	Sub-topic: Compliance with water charges, the Eurostat decision and the Capital Plan	Contact: Ben Sweeney Ext: 5589
FAST FACTS		
<ul style="list-style-type: none">• Irish Water is being funded by a combination of domestic and non-domestic water charges, Government subvention and the raising of debt on capital markets.• The level of operational subvention to Irish Water was agreed by Government at €399m for 2015 and €479m for 2016. The government also agreed to provide working capital loans to Irish Water of up to €96m and €58m for 2015 and 2016 respectively (agreed in 2014) to cover the lag between billing and cash receipts.• DPER does not have a role in sanctioning specific items of expenditure by Irish Water. The Department's role has been to ensure that all parties are aware of their obligations regarding the care of public funds and, at a high level, to review and consent to Irish Water's agreement with the National Pension Reserve Fund, borrowing from private lenders and consenting to its capital programme and its business plan. These consents reflected the advice of NewERA.• As is the case with other commercial state bodies, it is the function of the regulator for the sector to ensure that value for money and the interests of stakeholders generally are being considered. The Commission for Energy Regulation (CER) is the regulator of Irish Water.		
Q&A'S		
<ul style="list-style-type: none">• BRIEF QUESTION AND ANSWER SECTION		

How is Irish Water funded?

- Irish Water is being funded by a combination of domestic and non-domestic water charges, Government subvention and the raising of debt on capital markets.
- The level of operational subvention to Irish Water was agreed by Government at €399m for 2015 and €479m for 2016. The government also agreed to provide working capital loans to Irish Water of up to €96m and €58m for 2015 and 2016 respectively (agreed in 2014) to cover the lag between billing and cash receipts.
- In 2015 Irish Water expects billed income from domestic customers to total €271m and from non-domestic customers to total some €229m, giving a total billed income from customers of €500m.
- Irish Water has not sought any additional subvention from the Government. In its recently published Business Plan to 2021, Irish Water comments on its business and financial model for the period ahead including the monetary amounts that were allowed by the CER in the Interim Price Control 1 period to December 2016.
- Further details about the main aspects of the Irish Water funding model are set out in a detailed fact sheet published on the Department of Environment, Community and Local Government's website.

How does the compliance rate of Irish Water compare with other similar campaigns?

- Irish Water began issuing bills to their domestic customers in April this year. Domestic payments for the first bill cycle amounted to €30.5m representing a payment rate of 46%. Some 675,000 customers had made payments to their accounts up to 10 July 2015, which is 44% of the estimated customer base. At the three month point the Household charge had a similar compliance rate of 43.8%. Irish Water announced on 22 October 2015 that 55% of customers had now paid water charges. Thus, total payments received during the second billing cycle are 24% higher than the first billing cycle. The total amount paid up to 22 October is €68.4m.
- It is important to note that these are points in time pictures; customers continue to engage with Irish Water's call centre and this will lead to further payments.

Does this not fall short of expectations?

- This is a new bill which people have to get used to budgeting for. The first bill cycle was the first test of the customer billing system and these payment levels were achieved without the issue of reminders which would be the norm for utility companies. The second bill cycle saw an increase in customer payment and this trend is expected to continue.
- Furthermore, there continues to be a process of building the accurate customer base and this impacts on the statistics. For example,
 - there may be people included in the database who are being billed unnecessarily (because they are not Irish Water customers), the level of compliance may therefore be higher than reported; and
 - there are approximately 182,000 properties included in its customer database that are vacant or are holiday homes and it is likely that some of these customers may not yet be aware of their liability.
- There has been an increase in compliance between the two billing cycles. It also compares well with experience of domestic water billing in the UK where even for established utilities, with many years of domestic water charging, customers take on average 3 months to pay their bills. It also compares well with the experience of introducing other charges – for example, when we were 3 months into the Household Charge process in 2013, a compliance level of about 44% was achieved; this has risen progressively to some 97% now.
- A significant income stream has now been established allowing Irish Water to implement an expanded capital investment programme.
- A range of measures are being pursued by Irish Water in order to maximise payment of charges, including information and awareness raising campaigns. It is not expected that there will be any significant write off of bad debts.

What is the projected income from water charges?

- Irish Water is forecasting revenue of €271m in 2015 for water and waste water services to domestic customers. The forecasted revenue in 2016 to 2018 is of a similar level (2016 - €274m; 2017 - €276m, and 2018 - €279m). The level of income from non-domestic customers is forecast as €229m in 2015 with the forecasted revenue to rise to

€240m in 2016. While the Water Services Act 2014 caps the level of charges for domestic consumers to 2018, the level of charges for the non-domestic sector post the current regulatory period will be determined by the CER.

What are the implications of any shortfall in Irish Water's revenue for the Government's funding of Irish Water?

- In May 2015, the Department of Environment, Community and Local Government wrote to Irish Water setting out the conditions attached to the provision of the Government's operating subvention of €399m in 2015 and €479m in 2016. The letter makes clear that the subvention is based on support for the child allowance, capping of charges and product subsidy. The conditions of funding require Irish Water to engage with the Department of Environment, Community and Local Government on an appropriate mitigation strategy if there is any material deviation between actual billing and forecast billing which would impact on the level of Government revenue versus other revenue streams as this would have an impact on the market corporation test.
- Irish Water has not raised any issues in this regard as a result of the first and second billing cycle. The billing for quarter 1 and 2 appears to be broadly in line with forecasts. Irish Water have indicated to the Department of Environment, Community and Local Government, that as a new utility sending out bills for the first time, the progress on revenue collection compares well with other utility collection experience and they are satisfied with the rate of collection to date. It has already been agreed that up to €96 million can be provided as a working capital loan to Irish Water in 2015 to cover any lag between billing and receipt of revenue. At this stage, no changes are contemplated to Irish Water's financial plans for 2015 and 2016 or the Government funding. The revenue received from domestic customers will support the increased investment in the sector.

How many households have claimed the Water Conservation Grant?

- Applications for the €100 Water Conservation Grant have now closed. The Department of Social Protection, which is administering the grant on behalf of the Department of the Environment, Community and Local Government, issued letters to 1.306 million households inviting them to apply for the grant. Over 877,000 applications have been made; this figure will increase marginally as issues and clarifications remaining on

applications made before the deadline are worked through. A small number of payments remain to be made.

- The grant aims to help households (principal private residences) adopt a more environmentally friendly approach to water services. Behavioural change can help households manage the costs of water services. Using water carefully can help households manage their water bills and to protect the environment.
- The grant was available to Irish Water customers and non-customers (those on group schemes or with a private well and a septic tank) provided they had registered their principal private residence with Irish Water on or before 30 June 2015.
- The deadline for applying for the grant was midnight on Thursday 22 October. The original deadline was extended by two weeks due to a late surge in grant applications.
- The details of the 2016 grant scheme have yet to be finalised.

What are the implications for Irish Water following the recent Eurostat decision?

- The “point in time” classification decision by Eurostat in July in no way alters the fundamental case for a single national water utility with its own business plan, to oversee, co-ordinate and manage increased investment in our water infrastructure.
- There is no change as a result of the Eurostat decision to the structure of Irish Water, planned investment or level of water charges. Irish Water’s capital plan remains unchanged from that included in the baseline forecasts in the ‘Stability Programme Update’ and the ‘Spring Economic Statement’. Its overall budget to the end of 2016 has been set by the Commission for Energy Regulation. The associated arithmetic is also reflected in the Government’s budgetary figures.
- The classification of public sector bodies is reviewed by the CSO on an ongoing basis. When Irish Water’s revenue streams are fully developed and there is evidence of the commerciality of Irish Water, the CSO will make a further submission to Eurostat on the classification of Irish Water.
- The decision has no implications for estimating the national deficit as Irish Water had been provisionally included on balance sheet in the Spring Economic Statement and Stability Programme Update. With Irish Water included, the forecast is for a deficit of 2.1% of GDP in 2015, well below the 3% deficit target.
- Irish Water is funded by a combination of external debt, Government contributions and revenue from customers. Under the Water Services (No. 2) Act 2013, Irish Water is allowed, subject to Ministerial consent, to borrow money. The aggregate of moneys

standing borrowed at any one time shall not exceed €2 billion. Irish Water is obliged to set out annually in its business and financial plan the models underpinning its finances and Government will keep the funding of Irish Water under review having regard to the statutory borrowing limit.

What is Irish Water's plan for Capital Investment?

- Irish Water plans to invest €4 billion over the period 2016-2021. This will be targeted at:
 - addressing the major deficits in drinking water quality and capacity;
 - addressing wastewater treatment deficiencies and capacity;
 - repairing much of the infrastructure most need of investment, including removing lead piping from the public network.
- Irish Water proposes spending €150 million on leakage reduction, with a long-term objective of halving public and customer side leakage (currently 49% of all water produced is lost on leakage).
- Irish Water will prioritise projects to support industrial development, address infrastructural bottlenecks and facilitate new housing. Major projects that will be progressed include: Cork Lower Harbour Main Drainage Project; Eastern and Midlands Water Supply; and Greater Dublin Drainage Project. A large number of smaller projects will also be progressed.

What is DPER's responsibility in relation to Irish Water?

- DPER approval is required on a number of specific issues, including
 - Text and any subsequent changes to the Memo and Articles of Association;
 - borrowings or fundraising undertaken by Irish Water;
 - share capital of Irish Water and payment of dividends;
 - remuneration/pension arrangements of directors and Managing Director;
 - format of IW accounts; and
 - alienation of property rights associated with water meters.
- In terms of Irish Water oversight, DPER representatives would occasionally participate in subgroups or ad-hoc meetings as required.
- As is the case with other commercial state bodies, it is the function of the regulator for the sector to ensure that value for money and the interests of stakeholders generally are being considered. The Commission for Energy Regulation (CER) is the regulator of Irish Water.

- **DPER did not and does not have a role in approving or sanctioning specific items of expenditure by Irish Water, be it for consultancy or anything else.**
- **The Department's role has been to ensure that all parties are aware of their obligations regarding the care of public funds and, at a high level, to review and consent to Irish Water's agreement with the National Pension Reserve Fund, borrowing from private lenders and consenting to its capital programme and its business plan. These consents reflected the advice of NewERA.**