

BOX D: STATISTICAL TREATMENT OF IRISH WATER

With effect from 1 January 2014, Irish Water is responsible for public water services in Ireland. Irish Water has been provisionally classified within general government and is also included in general government for the purposes of the *SPU* projections. However, the CSO have proposed that Irish Water be classified outside of general government and Eurostat's final adjudication will be reflected at the time of *Budget 2016*.¹ This Box describes the impact on general government resulting from the preliminary classification.

Table D.1 shows the breakdown of the net General Government Balance (GGB) impact arising from the preliminary classification.² It is important to note that Local Government Fund (LGF) and Exchequer support in the form of the government operational subvention are incurred regardless of the classification decision. These are deducted from total expenditure to show the overall net deficit impact of Irish Water. The impact is expected to raise the deficit by 0.3 per cent of GDP for 2015 and by an average of 0.2 per cent of GDP over the period 2016-2020.³ The impact also raises general government debt, with the impact rising from 0.3 per cent of GDP in 2015 to almost 1 per cent by 2020.

TABLE D.1: BREAKDOWN OF IRISH WATER IMPACT ON GENERAL GOVERNMENT

€ billion unless stated	2014	2015	2016	2017	2018	2019	2020
Total Revenue	0.25	0.50	0.51	-	-	-	-
...of which Domestic Charges	0.00	0.27	0.27	-	-	-	-
...of which Non-Domestic	0.25	0.23	0.24	-	-	-	-
Support from LGF/Exchequer *	0.52	0.40	0.48	-	-	-	-
Total Expenditure	1.10	1.48	1.39	-	-	-	-
...of which Capital	0.32	0.68	0.60	-	-	-	-
...of which Operational (incl. interest)	0.78	0.80	0.79	-	-	-	-
Net GGB impact	-0.34	-0.58	-0.39	-0.26	-0.29	-0.45	-0.37
Net GGB impact (% GDP)	-0.18	-0.29	-0.19	-0.12	-0.13	-0.19	-0.15
Net GG debt impact (% GDP)**	0.08	0.29	0.47	0.57	0.67	0.83	0.95

Sources: *SPU 2015*; Department of Environment.

* This includes consolidation of transactions between Irish Water and Local Authorities.

** Two-year bridging facility provided by National Pensions Reserve Fund in 2013 (extended in 2014) has no impact.

As a regulated utility, Irish Water's operating and capital cost plans are reviewed by the Commission for Energy Regulation. The regulator has set a maximum "allowed revenue" to end-2016, which Irish Water can recover from customers' bills (domestic and non-domestic), taking account of the Government subvention. The first customers' bills started issuing in April 2015 and charges for households have been capped until end-2018. This results in less revenues from domestic customers than originally envisaged and no revenue in 2014. In each of 2015 and 2016, Irish Water expects billed income from domestic and non-domestic customers to total some €0.5 billion. On the expenditure side, the regulator has also set efficiency targets to end-2016 on Irish Water's operating and capital costs.⁴ Current plans envisage €0.68 billion of capital expenditure in 2015 and

¹ If the final Eurostat decision on the classification of Irish Water places it outside general government, the Government has noted that it will consider how best to make use of any improvement in the fiscal forecasts that would result.

² A breakdown beyond 2016 is not available as 2017-2020 forecasts are subject to future budgetary/regulatory reviews.

³ The impact reflects: Total Revenue (€0.5bn) + LGF/Exchequer Support (€0.4bn) - Total Expenditure (€1.48bn).

⁴ For example, these require Irish Water to reduce their operating costs by 7 per cent annually to end-2016 or just over €50 million per annum.

operational expenditure (including interest costs) of €0.8 billion, with total expenditure expected to fall in 2016 from €1.48 billion to €1.39 billion, largely on account of lower capital expenditure.