



Presentation to JOC on Future Funding of Domestic Water Services in Ireland
Economic and Budget Division, Department of Finance
18 January 2017



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Background...

- rationale:
 - need to upgrade water infrastructure
 - costly
- original approach:
 - Irish Water established to be “off balance sheet”
 - what does this mean?
 - : classified outside general government sector
 - : commercial entity (similar to other state utilities)
 - : day-to-day expenditure not part of government spending
 - : capital expenditure also excluded from expenditure
 - : debt of IW excluded from general government debt
- if “off balance sheet” then:
 - upgrade water infrastructure
 - without ‘crowding out’ other spending priorities

Eurostat ruling...

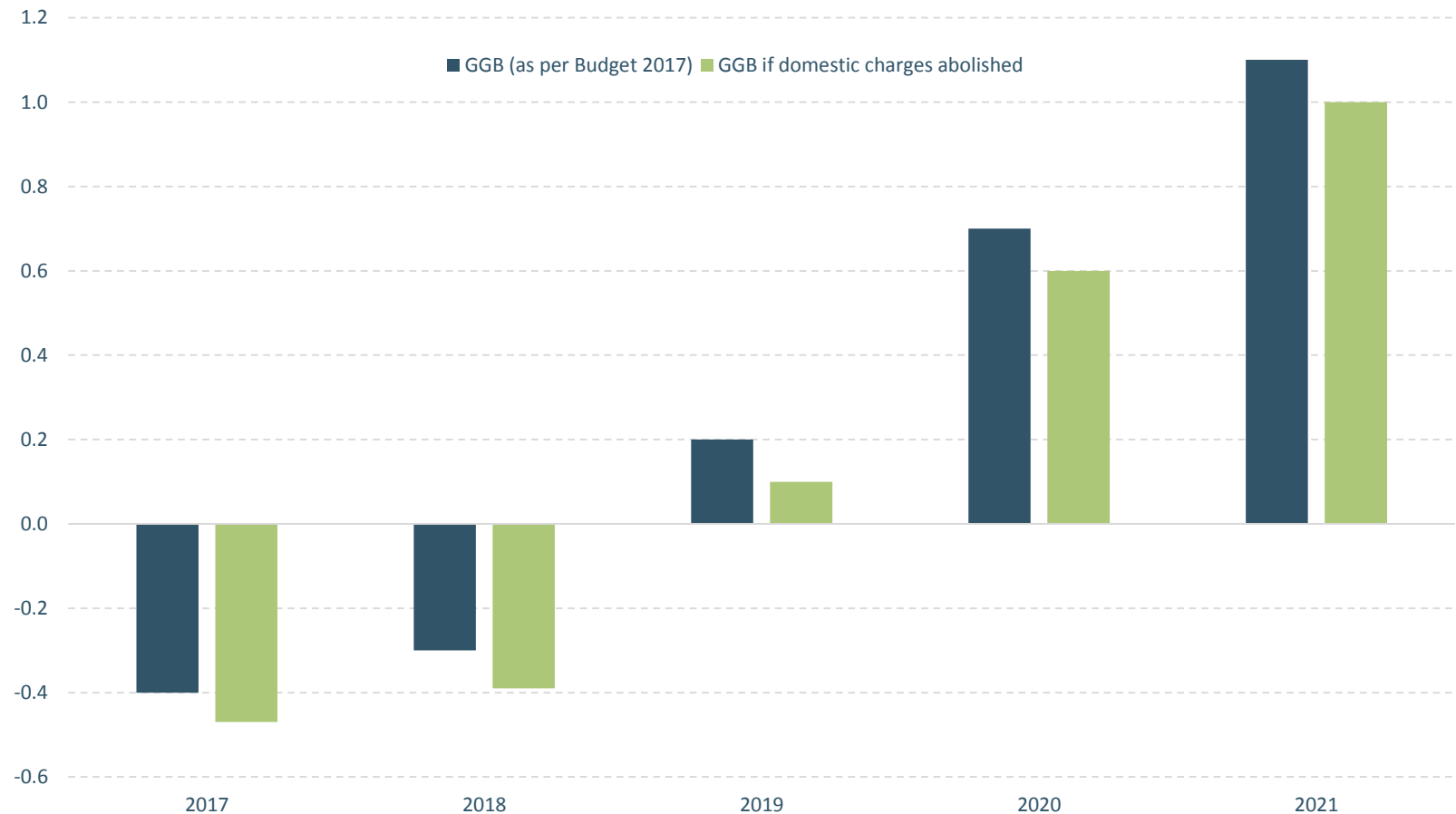
- *Eurostat* ruling summer 2015:
 - IW be classified within government sector
- Basis for decision:
 - lack of economically significant prices
 - : 'market test' (requires that sales > 50% of production costs)
 - : capping of fees for h/holds (70% 'protected' by cap)
 - significant funding
 - : operational grants
 - : capital funding
 - considerable government control
 - : board appointments
 - : price caps for non-domestic users
 - reorganisation of previous non-market activity

Irish Water included within general government sector...

- unlikely to change in short- to medium-term
- DoF role = fiscal planning & taxation policy
 - all IW expenditure = inc. general government expenditure
: irrespective of how IW expenditure is funded
 - all IW revenue = inc. general government revenue
 - all IW deficit (revenue – expenditure) = inc. general government deficit
 - all IW debt = inc. general government debt
- IW expenditure and revenue included in medium term fiscal forecasts
 - as set out in Budget 2017 (2017-2021)

Fiscal impact of abolishing domestic water charges...

projections for general government balance, % of GDP



Fiscal rules...

- correction of excessive deficit in 2015
 - now subject to preventive arm of Stability and Growth Pact
- preventive arm: targets for deficit and debt
- deficit:
 - requirement for balanced budget
 - 'eliminate' structural deficit by 2018
- debt:
 - must reach 60 per cent of GDP at 'sufficient pace'

Need to fund IW expenditure...

- IW business plan approved by Government (Oct 2015)
 - expenditure 2017-2021 agreed
- requires revenue stream
- if water charges abolished:
 - que: is taxation the appropriate mechanism to fund a public utility?
 - : don't pay for electricity / gas via the taxation system
 - : what about 'user pays' principle?

Economic considerations suggest taxation not appropriate funding mechanism...

- policy choices = matter for Government
- what does economics tell us?
- general taxation perspective
 - : issues (=“canons of taxation”) that should be considered include
 - (a) which tax head?
 - taxes distortionary
 - economic impact (OECD hierarchy)
 - (b) equity
 - (c) incidence of tax
 - (d) simple to administer? (administration costs vs. yield)
- hypothecation of taxation perspective
 - : issues that should be considered include
 - (b) – (d)
 - : why hypothecation confined to water?
- statistical issues: all taxation = ‘on balance sheet’