



An Phríomh-Oifig Staidrimh
Central Statistics Office

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Sector Classification of Irish Water in the Irish National Accounts.

Central Statistics Office

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Introduction

This note sets out the issues for consideration regarding the sector classification of the newly established water services utility Irish Water/Uisce Eireann for the purposes of National Accounts and Government Finance Statistics. Decisions around the proposed classification decision have been made with reference to the legally binding rules of the European System of Accounts (ESA 2010), supported by guidance from the current edition of the Manual on Government Deficit and Debt (MGDD 2014).

Background

Water services in Ireland have up till now been supplied through three main mechanisms:

- Public water systems (public mains/sewerage system) administered by Local Government. According to the 2011 Census of Population, 76% of households were supplied with drinking water services through the public mains while 66% had access to public sewerage systems ;
- Group Water Schemes – these are co-operative groups delivering mainly drinking water services in rural areas. Census 2011 shows that 12% of households had their drinking water supplied by these schemes.
- Individual supply – generally households in remote areas who have their own well and/or private wastewater treatment (e.g. septic tank). Census 2011 reported that 10% of households had private drinking water supplies while 30% had private wastewater facilities.

A report by PWC to the Department of the Environment, Community and Local Government (DECLG) in 2011 noted a range of issues with the existing water services provision model including a relatively high cost base, underinvestment, and consequent water wastage. It also noted emerging challenges in relation to compliance with EU environmental and water quality directives. The report recommended the establishment of Irish Water as a public utility with full responsibility for both drinking and wastewater service provision. This model was regarded by the PWC as bringing coherence and effectiveness to the delivery of water services and also as being likely to attract private investment. The report advocated the establishment of a new State Owned Enterprise with economic regulation by the Commission for Energy Regulation (CER) and technical and environment regulation by the Environmental Protection Agency (EPA).

Following receipt of this report, Government decisions in late 2011 and early 2012 provided for the establishment of Irish Water as a state owned enterprise within what was then known as the Bord Gáis Group which was subsequently renamed Ervia. Irish Water was established under the Water Services Act 2013 as the national water utility with responsibility for provision of water and wastewater services, roll-out of a metering and billing programme for the introduction of water charges, and a mandate to source private finance. Further details can be seen in the document *Paper 2 - Irish Water: Overview of Regulatory Framework and Revenue Streams*.

The Water Services Act 2013¹ provided for the establishment of Irish Water as a subsidiary of Ervia, initially as a metering authority. The Act also extended the mandate of the CER to include the economic regulation of water and wastewater services. Water services functions of local authorities² were transferred to Irish Water under the Water Services (No. 2) Act 2013³ which also provided for the introduction of water charges, subject to the approval of the CER. The Water Services Act 2014⁴ set the commencement

¹ <http://www.irishstatutebook.ie/2013/en/act/pub/0006/index.html>

² Apart from those concerning group water schemes and inspection of individual wastewater treatment systems.

³ <http://www.irishstatutebook.ie/2013/en/act/pub/0050/index.html>

⁴ <http://www.irishstatutebook.ie/2014/en/act/pub/0044/index.html>

date of domestic water charges as 1 January 2015 (this had been previously set as 1 October 2014) and established the ability to impose penalties for late payment of water charges (Section 4(1)). Section 3(3) of the Act provides for capping of charges to households, to a maximum of €160 euros for single adult households and €260 for households of two or more adults.

Currently local authorities are conducting certain water services on behalf of Irish Water via Service Level Agreements (SLAs) which are in place for the period up to 2025. Again, further details can be seen in the document *Paper 2 - Irish Water: Overview of Regulatory Framework and Revenue Streams*.

The Water Services (No.2) Act 2013 provides for the transfer of the water services assets from local authorities to Irish Water. These transfers will be facilitated through Ministerial Orders under the legislation. The assets to be transferred include assets such as land, buildings, water services infrastructure, vehicles, pipes, sewers and moneys. Statutory Instrument No. 13/2015⁵ established 20 January 2015 as the date of transfer of below-ground water services assets of ‘water services authorities’ (i.e. local authorities) to Irish Water. Further transfers are scheduled for 2015 with the intention that all relevant assets will be shown on the balance sheet of Irish Water at end 2015.

The DECLG have provided CSO with a business plan for Irish Water, which along with other supporting documentation has been used to inform the classification decision set out as follows.

⁵ <http://www.irishstatutebook.ie/2015/en/si/0013.html>

Classification of Irish Water

Definition of the General Government sector in National Accounts

According to the latest Manual on Government Deficit and Debt (MGDD 2014) the general government sector comprises “all institutional units which are non-market producers controlled by government”. The types of entity comprising the general government sector include “Non-market public producers, i.e. corporations and quasi-corporations controlled by government if their output is mainly non-market”. The general government sector excludes “market public producers”. The manual sets out three steps in the classification process of an entity to the government sector.

- Is the entity an institutional unit? If the answer to this question is yes, then the classification process moves on to the subsequent steps. If the answer is no, the unit is classified to the same sector as the unit which controls it.
- Is the entity controlled by government? If the answer to this is yes, then the classification process moves on to the next step. If the answer is no, the entity is private and is classified as a corporation or private non-profit entity.
- Is the entity a non-market institutional unit? If the answer to this is yes, then the entity is classified to the general government sector. If the answer is no, then it is classified as a publicly controlled market producer and classified to the financial/non-financial corporations sector depending on its type of activity.

The following sections examine the information available in relation to Irish Water in the context of these questions and describe the factors contributing to the decision at each stage of the classification process.

The 'institutional unit' test.

ESA 2010 2.12 defines an institutional unit as an entity which has “autonomy of decision” and which either keeps or is capable of keeping a complete set of accounts.

Criteria for an institutional unit ESA 2010, para 2.12	Assessment of Irish Water
(a) The unit is entitled to own goods or assets in its own right: it will be able to exchange the ownership of goods and assets in transactions with other institutional units	<p>The Water Services Act 2013 provides for establishment of Irish Water as a State-owned company, established as a subsidiary of Bord Gáis Éireann (now called Ervia).</p> <p>The Water Services (No. 2) Act 2013 provides for the transfer of water services functions and assets from the local authorities to Irish Water. A summary of the estimated scale of Irish Water’s assets and operations are detailed on page 6 of the attached business plan.</p> <p>The Memorandum of Association of Irish Water (Section 3) sets out the powers exercisable by the company, including the acquisition of assets, engagement in financing activities and leasing, and to engage contractors.</p>
(b) The unit is able to take economic decisions and engage in economic activities for which it is responsible and accountable at law	<p>Water Services (No.2) Act 2013 Section 12 (7) states that “Every chose-in-action vested in Irish Water by virtue of subsection (6) may, on and after the property vesting day concerned, be sued on, recovered or enforced by Irish Water in its own name...”. Section 13(2) states “Every right and liability transferred by subsection (1) to Irish Water may, on and after the property vesting day on which the right or liability stood transferred, be sued on, recovered or enforced by or against Irish Water in its own name...”</p> <p>Irish Water will deliver a capital investment programme of €5.5bn over the period to 2021. €4.5bn of this programme is projected to form part of Irish Water’s core Capex spend (and regulated asset base).</p>
(c) The unit is able to incur liabilities on its own behalf, to take on other obligations or further commitments and to enter into contracts	<p>The Memorandum of Association of Irish Water (Section 3, para 11) states that Irish Water has power “to raise or borrow money... for the benefit of the Company”. Section 2 para 7 sets out the right to “purchase, lease or by any other means acquire and take options over any freehold, leasehold or any other property...and to buy, acquire, sell,... take on hire,... any real or personal property or rights whatsoever.”</p> <p>According to its proposed business plan, Irish Water is following a 4-phase model to optimise access to financing, with the intention of accessing a wide variety of debt funding sources as it demonstrates reduced investor risk. Irish Water will approach banks, private and public markets in four subsequent phases, with Phase 4 planned to coincide with the achievement of an investment grade credit rating (2019 onwards). Irish Water therefore has clear decision-making autonomy over the conduct of its activity.</p>

Criteria for an institutional unit ESA 2010, para 2.12	Assessment of Irish Water
(d) The unit is able to draw up a complete set of accounts, comprised of accounting records covering all its transactions carried out during the accounting period, as well as a balance sheet of assets and liabilities.	Irish Water will prepare statutory accounts in line with the Companies Acts and the relevant accounting conventions, per Section 17 of the Water Services Act 2013. Financial statements for the year 2013 have been made available to CSO.

Conclusion 1: Based on the above assessment, Irish Water meets the conditions of an institutional unit.

The control test

ESA 2010 para 20.18 defines control as “the ability to determine the general policy or programme” of a unit. A set of indicators of control are provided in ESA 2010 para 20.309. In summary these indicators are as follows:

1. Rights to appoint, veto or remove a majority of officers, board of directors etc.
2. Rights to appoint, veto or remove a majority of appointments to key committees
3. Ownership of the majority voting interest
4. Rights to appoint, veto or remove key personnel
5. Rights under special shares and options (e.g. golden share)
6. Right to control via contractual arrangements – usually refers to exclusive use by public sector of goods and services produced by an entity
7. Rights to control from agreements/permission to borrow
8. Control via excessive regulation
9. Other – such as public sector approval for important decisions such as the development or abandonment of activities⁶.

MGDD 2014 states that any of the first three criteria are sufficient in themselves to determine government control. Where these are inconclusive the remaining criteria must be considered. It may be the case that a number of criteria taken together indicate control or that one single criterion, if of sufficient importance, can indicate control.

Considering the case of Irish Water, it can be seen that the majority voting interest is in public control. The Water Services Act 2013 sections 4 and 5 state that

4.—The Board shall, after consultation with the Minister, the Minister for Communications, Energy and Natural Resources and the Minister for Public Expenditure and Reform, cause a private company limited by shares (in this Act referred to as the “subsidiary”) conforming to the conditions laid down in this Act to be formed and registered under the Companies Acts.

5.—(1) The subsidiary shall be known, in the Irish language, as Uisce Éireann and, in the English language, as Irish Water...

(3) The memorandum of association of the subsidiary shall not specify an authorised share capital that differs from such amount as may be determined by the Minister, with the consent of the Minister for Finance and the Minister for Public Expenditure and Reform.

(4) One share in the company shall be issued to the Board, and, of the remaining shares in the company, half shall be issued to the Minister and half shall be issued to the Minister for Finance.

(5) No voting rights in the company shall attach to any of the shares issued to the Minister or the Minister for Finance in accordance with *subsection (4)*.

(6) The Board shall not, without the consent of the Minister and the Minister for Finance, alienate the share issued to it in accordance with *subsection (4)*.

⁶ An entity that is fully or almost fully financed by government would be regarded as controlled by government only if this degree of financing resulted in an ability to dictate the general policy and/or when the entity has no access to other funding sources.

In this context the term “Board” refers to Ervia (formerly Bord Gáis Eireann), a publicly controlled company. As the majority voting interest is held by a publicly controlled entity, Irish Water is therefore deemed to be under public control. According to the guidance in the MGDD no further consideration of control is required, however it may be noted that in addition to this criterion a number of other criteria of control can be observed in the legislation establishing Irish Water. Examples include:

- Water Services Act, 2013
 - Section 5(6) - the consent of government is required for Ervia to dispose of its share in Irish Water
 - Section 6 – the Memorandum and Articles of Association of Irish Water are subject to government approval
 - Section 12 – the consent of government is required for Irish Water to borrow, and a limit to this borrowing is set down in the legislation.
 - Section 32 – Irish Water may be directed at any time to carry out functions in line with Government policy.
- Water Services Act, 2014
 - Section 3 sets out limits to domestic water charges which may be applied by Irish Water during the period 1 January 2015 until 31 December 2018.

Conclusion 2: Irish Water is a publicly-controlled institutional unit.

The market/non-market test

ESA 2010 paras 20.19 to 20.28 are to be considered in relation to the market/non-market classification of an institutional unit. These rules (paras 20.19-20.22) set out the concept of ‘economically significant prices’ and make it clear that the nature of the purchaser of output of a public provider is relevant in the classification decision. Three possible scenarios are presented:

- Output is sold primarily to corporations and households (para 20.23)
- Output is sold only to government (para 20.24-20.26)
- Output is sold to government and others (para 20.27-20.28)

An examination of the forecasted financial flows of Irish Water (Appendix 2) show that the third of these options applies in this case as the revenue streams of Irish Water originate from a mix of households, public and private non-domestic users, and government. Therefore the criteria of ESA 2010 paras 20.27-20.28 must be assessed in classifying the market/non-market nature of Irish Water.

Profile of Irish Water revenues

Para 20.27 of ESA 2010 states that “If a public producer is the only supplier of its services it is presumed to be a market producer if its sales to non-government units are more than half of its total output”.

While Irish Water is not, strictly speaking, the only supplier of water services in the Irish market, the dominance of its position and the fact that the selection of water provider for the consumer is de facto determined by location, makes this analysis applicable.

To assess Irish Water’s position, firstly an analysis of their total revenues and those generated via government payments is presented. Table 1 shows a summary of the classification of each payment and each component of revenue is discussed in more detail below.

Table 1 Revenue types identified in Irish Water business plan and CSO classification of each revenue stream

Revenue Type as set out in IW business plan	Classification of payment
Billed non-domestic revenue incl. connection charges	Sales of Irish Water to corporations – P.1
Billed domestic revenue	Sales of Irish Water to households – P.1
Purchase of water by Government to provide child allowance	Sales of Irish Water to households – P.1 Social transfer from govt to households - D.632
Purchase of water by Government to give effect to caps	Production subsidy from govt to Irish Water - D.39
Per unit subsidy provided by Government	Product subsidy from govt to Irish Water - D.319 (c)

Billed non-domestic revenue

Non-domestic revenues as set out in the Irish Water business plan are currently based on a transfer of the “as is” situation with regard to collection of these revenues from local authorities to Irish Water. As set out in *Paper 2 - Irish Water: Overview of Regulatory Framework and Revenue Streams*, until the establishment of Irish Water non-domestic users of the public water system were charged for services by the relevant local authority and there was no harmonisation of charges at national level. As a pragmatic approach, therefore, the current plan with regard to non-domestic charges is to continue the existing charging regimes in order to allow Irish Water time to construct a consistent and sustainable non-domestic tariff regime and to submit this plan for approval by the Commission for Energy Regulation.

In order to assess the proportion of Irish Water's revenues deriving from government payments a breakdown of non-domestic revenues into government/other was requested. A preliminary estimate of €21.2 million per annum has been provided by the DECLG - see document *Public Sector Non-Domestic Spend*. In Table 3 (below) this estimate has been taken as a starting point and the rate of government payment of water charges on its own account has been trended forward based on the overall non-domestic revenues.

These revenues have been classified as a sale by Irish Water to non-domestic users (public and private).

Billed domestic revenue

The billed domestic revenues shown in Appendix 1 represent forecasted amounts to be collected directly from households and exclude any component of government subvention. This sales revenue relates to amounts billed to customers. Sales will only be recognised where an actual bill has been served on a customer in accordance with the international accounting standards. The forecasts are based on the water charges regime established in Section 3(3) of the Water Services Act 2014, namely water charges up to a maximum of €160 euros for single adult households and €260 for households of two or more adults, and taking account of rebates to metered customers who do not consume water up to the level of the maximum charge.

These revenues have been classified as a sale by Irish Water to households.

Purchase of water by Government to provide child allowance

Section 3(12) of the Water Services Act 2014 provides for payment of a "child water allowance" in respect of persons who have not reached the age of 18 years. The amounts shown in the Irish Water financial forecasts under this heading refer to payments by government in respect of this allowance. As can be seen in *Paper 2 - Irish Water: Overview of Regulatory Framework and Revenue Streams*, each household with children is to be supplied with an annual allowance of 21m³ of water per child and the forecasted revenues are based on this allowance.

This payment has been classified as a social benefit to households and consequently as a sale by Irish Water to households.

Purchase of water by Government to give effect to caps

The payment to Irish Water to cover the cost of provision of water to households for usage in excess of that covered by the capped charge is described in the Irish Water documentation as a purchase by government. However, given the nature of this payment, CSO is of the view that the correct treatment of this payment is as D.39 – Other subsidy on production.

We are of the view that when data on metered households is available it may be possible to revisit this classification and to split this payment into two components – a per unit payment based on metered usage and an assessed amount for other households. In this event it is our view that it may be possible to regard the first component based on metered data as a transfer to households and to include this component in the calculation of sales of Irish Water, while the remaining assessed amount would continue to be classified as a subsidy on production.

However for the moment we treat the full amount of this payment as D.39 in our calculation of the market/non-market criterion below and exclude this payment from sales of Irish Water.

Per unit subsidy provided by Government

Examination of the material provided to CSO shows that the per unit subsidy rises from €1.72 per unit in 2015 to €2.23 per unit in 2016 (combined water and wastewater services – see pages 29 and 30 of *Paper 5 – Irish Water Allowed Revenue and Tariff Structure* and Table 2 below.

Table 2 Per unit price of combined water/wastewater services 2015-2016

	€	
	2015	2016
Subsidised per unit rate	3.70	3.70
Subsidy per unit	1.72	2.23
Total unit cost	5.42	5.93

When the variation in the subsidy per unit of water between 2015 and 2016 was queried the following reply was received from DECLG:

Allowed revenue has been modelled as increasing in 2016 due to greater depreciation and return on capital allowances arising from 2015 capital expenditure. Given consumption is similar year on year, this means the gross unit rate of water also increases. As the domestic rate is fixed, the product subsidy unit rate increases. The CER does not however split allowed revenue on an annual basis within the price control period, allowing for fluctuations to arise between years. It would therefore also be valid to adopt a levelised profile for unit rates (gross and product subsidy) over 2015 and 2016 as well as customer charges. This would also have the impact of reducing the difference in Government subsidy between 2015 and 2016 (without any impact on total).

The breakdown of subvention beyond 2016 has not been projected but as total subvention falls we would expect the product subsidy to broadly do the same.

ESA 2010 para 3.33 specifies that payments made by general government to cover an overall deficit of public corporations are not considered part of sales. However ESA para 4.33 (a) allows for the following payments to be considered as product subsidies “the difference between a specified target price and the market price paid by a buyer” (D.31(c)). The variation of the per unit subsidy to take account of additional costs may be regarded in this light, however it is the view of CSO that the basis for the change in the rate means that this payment more closely resembles the case set out as D.319 (c) “subsidies to public corporations and quasi-corporations to compensate for persistent losses which they incur on their productive activities as a result of charging prices which are lower than their average costs of production as a matter of deliberate government or European economic and social policy” which are not considered part of sales.

These payments are classified as D.319(c) and are therefore not included in our calculation of sales for Irish Water.

Table 3 presents a summary of the revenues classified as sales for the purposes of the market/non-market test and shows the proportion of these sales which are funded by government.

Table 3 Sales of Irish Water and proportion deriving from Government

€million - forecast

Sales	2015	2016	2017	2018	2019	2020	2021
A. Billed domestic charges	271	274	■	■	■	■	■
B. Child allowance	60	61	■	■	■	■	■
C. Billed non-domestic charges	229	240	■	■	■	■	■
<i>D. Of which sales to government establishments</i>	21	22	■	■	■	■	■
Total Sales (A+B+C)	560	575	■	■	■	■	■
Sales funded by government (B+D)	81	83	■	■	■	■	■
As % of total sales	15%	14%	14%	14%	14%	14%	14%

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The quantitative market/non-market criterion

ESA 2010 para 20.29 states that the ability to undertake a market activity will be “checked notably through the usual quantitative criterion (the 50% criterion) using the ratio of sales to production costs. To be a market producer, the public unit shall cover at least 50% of its costs by its sales over a sustained multi-year period”.

In considering the nature of the charging structure of Irish Water it is useful to note that the decision to cap domestic charges has been made in the context of maximising revenue generation based on customer confidence and is related to previous experience in the introduction of ‘smart’ electricity meters - see *Paper 2 - Irish Water: Overview of Regulatory Framework and Revenue Streams*. [REDACTED]

CSO have queried with Eurostat whether guidance around the definition of ‘economically significant prices’ for the purposes of defining market output or sales takes precedence over the result of the quantitative assessment of sales and Eurostat replied as follows:

CSO suggestion for item for discussion at MGDD TF: Clarification around the current rather circular guidance on classification of 'sales' as per MGDD I.2.4.1 para 26 and MGDD I.2.4.3 para 30

Eurostat response: we agree that there may seem to be some circular guidance at the first sight. But we would say that the para 26 discusses the theoretical concept while the para 30 the practical approach (practical implementation of the theoretical concept).

Therefore we have taken the ‘practical approach’ in assessing the market status of Irish Water as can be seen in Table 5 below.

Before setting out the detail of the market/non-market test for Irish Water some other issues need to be considered.

Treatment of Household Conservation Grant

As part of the package of restructuring the provision and financing of water services in Ireland the Government announced an €100 per annum water conservation grant for households. This grant is to be

provided to all households who register with Irish Water whether or not they are customers of Irish Water. The DECLG's [FAQs document](#) on changed water services structures including the conservation grant states that the purpose of the grant is "To promote sustainable use of water and to enhance water conservation in households." The grant will be payable to all "eligible" households, i.e. all primary residences, including those whose water is supplied by Group schemes or who have private water/wastewater facilities. The grant is payable annually to eligible households for the period 2015-2018. In the documentation available on the grant to date there is no requirement for evidence that the grant is used for the intended purposes or any linkage between receipt of the grant and payment of water charges to the relevant provider.

It is the CSO's assessment therefore that the grant represents a cash transfer to households and is unrelated to the financing of any water services provider. It is proposed to record the grant either in the category [D.759 \(h\) – current transfers from general government to households in their capacity as consumers if not recorded as social benefits](#) or [D.92 – Investment grants \(to households\)](#). A recording as a social benefit does not seem appropriate as there appears to be no social risk (as defined in ESA para 4.84) associated with the payment. In any case this payment is not deemed relevant to the assessment of Irish Water's market/non-market status.

Treatment of Bad Debts in Irish Water projections

In the income statement provided by Irish Water (see *Paper 3 – Overview of Irish Water's Financial Forecasts*) a provision for bad debts is set out showing a maximum level of █% in 2015 – the year when domestic billing is introduced – and falling quite rapidly to a level of █% by 2018 and remaining stable thereafter. The paper notes that the level of provisioning for uncollected revenue is likely to be the subject of further discussion between Irish Water and its auditors and that the income statement reflects their current estimate. CSO have been previously advised that these are based on experience in other countries. In the case of Ireland it may be considered that the level of public disquiet around the introduction of water charges may have an impact on the realisation of these revenues. It must also be recognised however that a strong legislative basis is being put in place to underpin the collection of water charges including penalties for late payment (Water Services Act 2014, Section 4). Future legislation to enhance the powers of collection of water charges is expected to include a provision for a statutory charge on the dwelling in respect of unpaid water charges and a deemed obligation to be inserted into tenancy agreements for tenants to discharge their water services bill, with mechanisms being made available for the recovery of outstanding amounts.

For the purposes of the market/non-market test conducted below the billed amounts provided by Irish Water have been used in the calculation of sales, in line with the ESA definition of output at basic prices (para 3.44). Comments received in correspondence from Eurostat in relation to the treatment of bad debts further confirm this treatment: "we believe that the sales which are to be recorded in national accounts are those on the accrual basis (like in business accounts and in chapter 3 in ESA2010) and not sales paid. However, with the reservation that if there is no expectation that the sale will be paid and it is shown in basic data sources, the basic data sources should be used. In a normal situation, when we book sales on accrual basis and it is revealed that the sales will not be paid only later on, then we should record a capital transfer. As mentioned before the accrual amount of sales should enter the 50% rule."

The performance of Irish Water against its forecasted revenues will be monitored closely by CSO in the future and data collection to allow us assess progress against projections will be put in place.

Treatment of other water providers

In the Irish Water documentation, it can be seen that it is proposed that government would pay subsidies to reduce the impact of water charges on households. Subsidies are already provided to the community-based group water schemes referred to earlier. There are clearly initiatives in place to harmonise the subsidisation of water provision across the sector so that the treatment of households is equivalent whether a household is a customer of Irish Water or not. It is noted in *Paper 1 – Overview of the Water Sector in Ireland* that following a review of charges and subsequent discussions with the National Federation of Group Water Schemes the subsidy to their members has been adjusted downwards to bring the cost faced by customers of these schemes into line with those for Irish Water customers. It appears therefore that given the complexity of the sector there has been considerable effort to ensure equity of treatment of households regardless of their water provider and that there is no particular need to consider the subsidies to Irish Water in a different light to those paid to other water providers.

Definition of Operating Costs for market test

Table 4 shows an analysis of the detailed cost statement provided to CSO for Irish Water costs for years 2015-2016.

Table 4 CSO analysis of Irish Water production costs 2015-2016

Costs		ESA code	€million - forecast	
			2015	2016
SLA	Payroll	D.1	█	█
SLA	Management charge	P.2	█	█
Direct	Payroll	D.1	█	█
Direct	Regulatory Levy	P.2	█	█
Direct	Customer Service	P.2	█	█
Direct	Labour related	D.1	█	█
Direct	T&S	P.2	█	█
Direct	Legal/Professional Fees	P.2	█	█
Direct	Other operating	P.2	█	█
Direct	External Service Providers	P.2	█	█
Direct	IT & equip maintenance	P.2	█	█
Direct	metering	P.2	█	█
Direct	Consumables	P.2	█	█
Direct	Energy	P.2	█	█
Direct	Repairs & Maintenance	P.2	█	█
Direct	First fix	P.2	█	█
Direct	Design Build and operate	P.2	█	█
Direct	Subtotal		█	█
Direct	Net interest	D.4	█	█
	Total Operating costs (before CFC)		822.1	829.8
	Consumption of Fixed Capital		220.0	238.0
	Total Operating Costs for market test		1,042.1	1,067.8

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Market/non-market quantitative test for Irish Water

In the financial forecasts (*Paper 4 - MCT Calculations 2015-2021*) provided by Irish Water there was initially no detailed breakdown of government payments into child allowance, product subsidy and payment for water usage above the capped amount for the years 2017 onwards. This has subsequently been provided – see Excel file *Subvention split 2015-2021.xls* and the combined information is now shown in Appendix 1. While the figures in these forecasts have been presented in an approximation of the market/non-market test calculations it must be stressed that, as can be seen from the foregoing analysis, CSO have made our own judgements around the classification of both income and expenditure of Irish Water and it is this determination which is reflected in the following calculation. It should also be noted that in classifying payments to Irish Water the most conservative possible interpretation has been applied in all instances.

In summary: Only three categories of payments to Irish Water as presented in the background papers have been treated by us as sales for the purposes of the market/non market test, namely:

- Amounts billed to households for domestic water consumption (by adults);
- Amounts billed to establishments for non-domestic water consumption; and
- Amounts billed to Government in respect of the household allowance for water consumption by children.

Based on this assessment the quantitative market/non-market test for Irish Water is as set out in Table 5. As can be seen, based on the forecasts provided to CSO, Irish Water is assessed to cover more than 50% of its costs through sales of goods and services from 2015 (54% of costs covered by sales in 2015) and to increase this proportion over the period up to 2021 (64% of costs covered by sales in 2021). Therefore our provisional assessment is that Irish Water is forecast to operate as a market unit.

Table 5 Market/non-market test for Irish Water

€million - forecast

	2015	2016	2017	2018	2019	2020	2021
Sales	560	575	■	■	■	■	■
<i>Of which:</i>							
Non-domestic charges	229	240	■	■	■	■	■
Billed domestic	271	274	■	■	■	■	■
Child allowance	60	61	■	■	■	■	■
Costs	1,042	1,068	■	■	■	■	■
Sales as % of costs	54%	54%	57%	59%	60%	62%	64%

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Conclusion 3: Irish Water is forecast to function as a market, publicly-controlled institutional unit and should be classified to the non-financial corporations sector based on the current business plan and financial forecasts. This classification must be reviewed as actual results become available in later periods.

Appendix 1 Financial forecast for Irish Water as received from DECLG

€million

	2015f	2016f	2017f	2018f	2019f	2020f	2021f
Billed non-domestic revenue incl. connection charges	229	240	■	■	■	■	■
Billed domestic revenue	271	274	■	■	■	■	■
<i>Total customer revenue</i>	<i>500</i>	<i>514</i>	■	■	■	■	■
Purchase of water by Government to provide child allowance	60	61	■	■	■	■	■
Purchase of water by Government to give effect to caps	129	138	■	■	■	■	■
Product subsidy provided by Government	211	280	■	■	■	■	■
<i>Total Government revenue</i>	<i>400</i>	<i>479</i>	■	■	■	■	■
Total revenues	899	993	■	■	■	■	■
Operating costs	789	775	■	■	■	■	■
Consumption of fixed capital	220	238	■	■	■	■	■
Net interest expense	32	56	■	■	■	■	■
Total production costs	1,042	1,068	■	■	■	■	■

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Main table is taken from document *Paper 4 - MCT Calculations 2015-2021*.

Shaded cells show extra detail provided in Excel file *Subvention split 2015-2021.xls*

Appendix 2 List of supplementary documents provided

Paper 1 – Overview of the Water Sector in Ireland

Paper 2 - Irish Water: Overview of Regulatory Framework and Revenue Streams.

Paper 3 – Overview of Irish Water’s Financial Forecasts

Paper 4 - MCT Calculations 2015-2021

Paper 5 – Irish Water Allowed Revenue and Tariff Structure

Paper 6- Irish Water Draft Business Plan

Memorandum and Articles of Association of Irish Water

Public Sector Non-Domestic Spend

Subvention split 2015-2021 (Excel file).