Ms. Éilis Fallon
Committee Secretariat
Committee of Public Accounts
Leinster House
Kildare Street
Dublin 2

Your refs: PAC32-I-1690 and 32-I-1716

Dear Ms. Fallon,

I refer to correspondence on behalf of the Committee dated 21 and 28 November 2019, enclosing details of certain Committee discussions, and further related discussions at the Committee on 5 December 2019.

As outlined in your letters, the Committee has requested the following information:

- an up-to-date note on the contributions of Irish Water to the Local Government Fund;
- the level of funding which will be available for each local authority;
- details of any Government subvention which will be available;
- an update on the review of the baselines set for each local authority; and
- an information note regarding the arrangements in the Department for monitoring the effects of changes to global valuations on funding of local authorities.

After examining the transcripts of the Committee’s discussions, and cross-referencing with the requests for information, it appears that the main issues which the Committee are interested in concern the changeover from a position whereby Irish Water, up to this year, was not liable for commercial rates, and local authorities were compensated for such rates foregone, to a position whereby Irish Water is now treated like other national utilities and will be liable for commercial rates from 2020.

In this regard, I thought it would be useful to set out for the Committee a brief synopsis of the background and main issues arising, before providing responses to the Committee’s specific requests for information.
Irish Water and Commercial Rates

On establishment, Irish Water was initially subject to commercial rates for 2014. In November 2014, the Government announced a new package of measures relating to water charges and the financing of Irish Water. As part of this package, the decision was made to exempt Irish Water from a liability for commercial rates to ensure that households and businesses paying water charges would not have to meet this cost. The Water Services Act 2014 provided the statutory basis to exempt water infrastructure from commercial rates.

On foot of this, local authorities were compensated for water services-related commercial rates foregone, with an amount of c. €47m per annum being provided between 2015 and 2019. The compensating funding was provided from the Local Government Fund, distributed on the basis of previously valued water services infrastructure in each local authority. The water services infrastructure in many local authorities was only partially valued, or not valued at all, and the compensation to those local authorities reflected that.

A new funding model for water services was developed in 2017, following on from the report of the Joint Oireachtas Committee on the Future Funding of Domestic Water Services, which was approved by both Houses of the Oireachtas in April 2017. In November 2017, the Water Services Act 2017 was enacted and section 61 of that Act provided the statutory basis for the removal of the Irish Water exemption from commercial rates. This was consistent with the general approach applicable to the infrastructure of public utilities and in line with a recommendation of the City and County Management Association.

The valuation process in relation to water infrastructure was undertaken by the independent Office of the Commissioner for Valuation, concluding on 18 October 2019. Section 61 of the 2017 Act was commenced with effect from the same date and Irish Water will therefore become liable for commercial rates with effect from 1 January 2020. As with other public utilities, Irish Water’s infrastructure is valued on a “global valuation” basis and each local authority is apportioned an element of a global valuation if property of the utility undertaking concerned is situated in its local authority area. In line with the recommendation of the independent Commissioner for Valuation, the apportionment of the valuation of Irish Water among local authorities from 2020 will be based on population, in a similar way to the treatment of other utility companies with national networks that are subject to the global valuation process.

Until the Annual Rate on Valuation (ARV) is adopted at each local authority budget meeting and notified to the Department, it is not possible to calculate finally the rates income from Irish Water (and more generally) in 2020. However, using available data, it is estimated that local authorities collectively could receive some €42.4m in Irish Water rates-related income in 2020. As a result, it is expected that there will be a slight reduction in the overall income arising from Irish Water’s infrastructure and it will be distributed differently. Therefore, some local authorities are expected to receive less in commercial rates from Irish Water than the amount of compensation previously paid. On the other hand, other local authorities are expected to receive considerably more in commercial rates than they had in compensation.
Other global utilities such as the ESB and EirGrid have also been revalued and the valuation likewise apportioned amongst local authorities. Once again, some local authorities are expected to experience an increase in commercial rates income from this process. Indeed, it would appear that all of the local authorities who will lose some rates income from the Irish Water valuation process will see their ESB-related rates income rise. When ARVs are finalised and notified to the Department in January, it will be possible to calculate the final rates income from Irish Water, the ESB and EirGrid in 2020 in each local authority. Once this exercise is completed, I will arrange for a finalised table to be provided to the Committee, setting out the position in relation to each local authority.

Monitoring of Impacts

In the engagement and communication on the change in the approach to the rating of Irish Water, the Department has actively monitored the financial impact of this transition on individual local authorities in the context of their overall financial position. This is an ongoing process and engagement takes place on a bilateral basis between officials in the Department and individual local authorities. The Department also held regular discussions with nominated local authority representatives regarding the potential implications of the valuation of Irish Water (and other utilities), the Reval 2019 process undertaken by the Commissioner for Valuation, and the development, and implementation, of the Local Government Rates and Other Matters Act 2019.

The Department keeps the financial position of all local authorities under review, particularly in relation to income, expenditure and reserves. Revenue-raising decisions such as the setting of the ARV and LPT rates and the level of charges for local services are reserved functions of the elected members of local authorities.

Based on our analysis and engagement with local authorities on an individual and collective basis, the assessment of the likely impact of the Irish Water valuation process was considered to impact adversely on the Dublin local authorities, Waterford City and County Council, Wicklow County Council and Kildare County Council.

Given the relative financial position of Waterford City and County Council and Wicklow County Council, the Minister has approved €2.3m in funding from the Local Government Fund to make the transition more manageable in the case of those local authorities. Waterford City and County Council is the most affected and, therefore, the Minister has allocated it €2m, which will significantly mitigate the impact. Wicklow County Council will receive €300,000 in support funding.

Baseline Review

In May 2018, a Local Government Funding (Baseline) Review Group was established to consider the methodology to determine local authority funding baselines, so as to inform the distribution of any additional funding that could become available for general, operational purposes.

The Review Group, comprising representatives from the Department and the Local Government sector, including both executive and elected member representatives, was
tasked with developing a methodology for distributing any additional funding that might become available, in order to bring greater balance and equity of funding outcomes for local authorities and to inform the Minister in relation to any actions he might wish to recommend to Government.

Recommendations were received from the Review Group in August 2018 and these fell to be considered in the context of the overall review of LPT undertaken by the Department of Finance. Taxation policy, including in relation to LPT, is in the first instance a matter for the Minister for Finance and Public Expenditure and Reform.

While the review of LPT was published by the Department of Finance in March 2019, it was referred to the Budgetary Oversight Committee for its consideration. When that process is concluded, the Minister has indicated that the work of the Baseline Review Group will be considered further.

**Irish Water Contributions to the Local Government Fund**

The Local Government Fund is made up of Local Property Tax Receipts and Exchequer funding secured as part of the annual Estimates process. There are no contributions into the Fund from Irish Water.

I trust that this information is of assistance to the Committee. If the Committee requires any further information, please do not hesitate to contact my office.

Yours sincerely,

John McCarthy
Secretary General