

DÁIL ÉIREANN

MAOINIÚ AR SHEIRBHÍSÍ UISCE TÍ SA TODHCHAÍ: AN COMHCHOISTE UM JOINT COMMITTEE ON FUTURE FUNDING OF DOMESTIC WATER SERVICES

Dé Máirt, 7 Feabhra 2017

Tuesday, 7 February 2017

The Joint Committee met at 12 p.m.

MEMBERS PRESENT:

Deputy Colm Brophy,	Senator Lorraine Clifford-Lee,
Deputy Mary Butler,	Senator Paudie Coffey,
Deputy Barry Cowen,	Senator Grace O'Sullivan.
Deputy Alan Farrell,	
Deputy Martin Heydon,	
Deputy John Lahart,	
Deputy Paul Murphy,	
Deputy Eoin Ó Broin,	
Deputy Kate O'Connell,	
Deputy Jan O'Sullivan,	
Deputy Thomas Pringle.	

SENATOR PÁDRAIG Ó CÉIDIGH IN THE CHAIR.

Business of Joint Committee

Chairman: Apologies have been received from Deputy Jim Daly.

At the request of the broadcasting and recording services, members are requested to ensure that for the duration of the meeting, their mobile phones are turned off completely, or switched to airplane, safe or flight mode, depending on their device. It is not sufficient for members to merely put their phones on silent mode, as this will maintain the level of interference with the broadcasting system.

In accordance with the standard procedures agreed by the Committee on Procedure and Privileges, for paperless committees, all documentation for the meeting has been circulated to members on the document database.

The joint committee went into private session at 12.04 p.m. and resumed in public session at 12.18 p.m.

NewERA, National Treasury Management Agency

Chairman: By virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the joint committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or an entity by name or in such a way as to make him, her or it identifiable. The opening statement submitted to the committee will be published on its website after the meeting.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official, either by name or in such a way as to make him or her identifiable.

At the request of the broadcasting and recording services, delegates and those in the Visitors Gallery are requested to ensure that for the duration of the meeting their mobile phones are turned off completely or switched to airplane, safe or flight mode, depending on the device used, and not merely left in silent mode. Today's meeting will continue our consideration of funding domestic water and wastewater services. The meeting is in two parts. During the first part, we will hear from NewERA, which is part of the National Treasury Management Agency, NTMA, and is represented today by Ms Eileen Fitzpatrick, director, along with Mr. David Stokes and Mr. John Dillon. I am taking their submission as having been read by members. We decided that we will go into a question and answer session. The Department of Housing, Planning, Community and Local Government is represented by Ms Maria Graham, Mr. Patrick O'Sullivan and Mr. Colm Lavery. I invite members to put their questions, with Deputy Heydon first followed by Deputy Paul Murphy, or is Senator Coffey the first to speak?

Senator Paudie Coffey: I will give way first and come back.

Deputy Barry Cowen: I thank the witnesses for their submissions. I will deal with NewERA first. To many, the methodology behind NewERA and the failure to meet the EURO-STAT test undermined the whole concept behind and reason for the establishment of the water charging system. It would appear that passing the test is not now possible. I am conscious of the recommendations of the expert commissions and some questions emanating from that in respect of borrowings. What is the current borrowing cost of Irish Water in comparison to ten-year Government bonds? I ask this because, at present, I believe borrowing is done on a yearly basis. Is that correct?

If the State is to become the sole customer of domestic water tariffs, is it feasible to borrow on the markets whether it be by Irish Water or its parent company, Eirvia, thereafter? Has Irish Water undertaken an analysis of this shift, as proposed by the expert commission report? It was published some time ago and I am sure there has been some consideration of the recommendations contained in it. It would be interesting to hear at this juncture whether there is any comment from NewERA in respect of this issue.

Some would say that the cessation of water metering was on the cards anyway because we were led to believe that 300,000 properties could not be metered. Has the shift of any remaining metering to district metering affected borrowing capacity if that remains a commitment or the wish of Irish Water even with the State being its only customer in respect of domestic charges?

Ms Eileen Fitzpatrick: I will provide some context for the report. It is primarily about the most cost-effective way currently for Irish Water to fund its commercial facilities in the context of the decision by EUROSTAT and in light of the suspension of domestic charges. The report looked specifically at the cost of current commercial facilities for Irish Water, which are on a one-year basis, and compared it with what the State is funding on a one-year basis. Based on an interest rate of 1.4% for Irish Water and -0.4% for the State, we would calculate that this amounts to an interest rate saving of about €14 million for the State so that is the primary context for the report.

On longer term funding rates for the State, Irish Water is not funding long term. Under any circumstances, in the usual order of merit State funds are cheapest. Semi-State and commercial semi-State bodies fund with a premium, while Irish Water is in a different phase of its development. If we compare the five-year cost of debt for Irish Water hypothetically because it is not currently funded with the cost of five-year debt for the State, it is cheaper for the State. From its perspective, given current circumstances, for the foreseeable future the most cost-effective way of funding Irish Water is through the State.

Deputy Barry Cowen: If one was to apply today's figures over a period of ten years, the cost would be €140 million.

Ms Eileen Fitzpatrick: The cost to the State now is 1.2%. The average rate for Irish Water for its commercial debt facilities is 1.4%. Even over a period of ten years, it would be more expensive because longer term money would be provided, but the State is funding it at a rate of about 1.2%. There has been a slight rise in rates.

Deputy Barry Cowen: In the short or long term, it is more beneficial to the State to borrow

Ms Eileen Fitzpatrick: Point-to-point, the curve shows that it would be cheaper for the State

Deputy Barry Cowen: If the State becomes the sole customer, the possibility of private borrowings will not be considered.

Ms Eileen Fitzpatrick: In current circumstances, it is pragmatic for Irish Water to let the State provide funding. That does not preclude, at any point, Irish Water from returning to commercial markets. Being what they are, commercial lenders will lend to someone if they think they will get an appropriate return at an appropriate level of risk. I do not think deciding to fund Irish Water from State resources would make any material difference or lock Irish Water out of commercial lending forever.

Deputy Barry Cowen: No specific analysis of that prospect has been made since the commission made its report public, in so far as Irish Water's ability to meet its capital programme in the next ten years would not be diminished by virtue of the fact that the State would be borrowing rather than having recourse to private markets because the subvention would be sufficient by comparison to what it was envisaged it would receive in domestic charges.

Mr. John Dillon: The certainty of funding-----

Deputy Barry Cowen: Would Mr. Dillon say it would be more certain than has been the case in recent years?

Mr. John Dillon: It would be cheaper for the State to fund Irish Water than for Irish Water to fund itself. That is the essence of what we have said in our report.

Ms Eileen Fitzpatrick: It currently avails of one-year facilities. It has a high degree of-----

Deputy Barry Cowen: Will Ms Fitzpatrick confirm that the cessation of the metering programme in no way interferes with the capacity of Irish Water to fund itself into the future?

Ms Eileen Fitzpatrick: That is probably a matter for someone else. We cannot make a comment on metering.

Deputy Barry Cowen: The Department can comment on it later. Do its representatives want to comment on it now?

Ms Maria Graham: If we are focusing on borrowing, it does not really matter who is lending to Irish Water once the lender is paid. Metering is not required for that purpose.

Deputy Barry Cowen asked, if the State was the sole customer, what that meant from a lending perspective. Again, that is a separate question because local authorities which received funding for the domestic sector borrowed from commercial lenders against non-domestic revenue.

Deputy Barry Cowen: That adds no weight to the argument that the State can still borrow at a certain rate, irrespective of whether it is a local authority or Irish Water. The failure to move in that direction does not affect the capability of the entity to provide for the required capital expenditure needed to improve the system in the future.

Ms Maria Graham: As the Deputy said, there are two separate issues, one being the revenue coming into Irish Water and the other-----

Deputy Barry Cowen: Because it is guaranteed.

Ms Maria Graham: As Mr. Dillon said, it is a matter of the certainty of funding. The other

issue concerns who is giving the money.

Ms Eileen Fitzpatrick: Irish Water has about €800 million in commercial facilities. The proposal is simply to swap these commercial facilities for Government commercial facilities.

Deputy Paul Murphy: The NewERA paper is quite significant to our work. One will remember that, at a certain stage, the off-balance-sheet argument became a really key one for Irish Water. The objective in being off balance sheet was to allow borrowing that would not appear on our books under the fiscal rules and so on. The former Minister Deputy Alan Kelly said when Irish Water had failed the EUROSTAT test that it had had no impact whatsoever, but it obviously has.

I am following up on the main point, which Deputy Barry Cowen was getting at. As it stands, according to NewERA, the additional cost on a yearly basis of Irish Water borrowing with what is effectively a failed off-balance sheet mechanism is €13 million to €15 million. The main benefit that was meant to accrue from that model was that the borrowing would not appear on our books under the fiscal rules.

Ms Eileen Fitzpatrick: The natural advantage of a commercial semi-State entity that is off balance sheet is that its expenditure does not affect the Government balance. However, because it is now within the Government structure, what Irish Water does will affect the national accounts. From a pragmatic perspective, one is looking for the most cost-effective way and use of the sovereign is the most cost-effective way, but it does not have the advantage of a commercial semi-State body, the actions of which would not have an impact.

Deputy Paul Murphy: Are there substantial advantages to having it in this failed off-balance sheet model?

Ms Eileen Fitzpatrick: Going back to an earlier point, it is a different model. Irish Water is highly ambitious about capital expenditure and meeting the need in this regard. In this model I do not believe there is any reason it could not carry out its objectives in that regard.

Deputy Paul Murphy: Capital expenditure is a key part of what we are considering because we believe there needs to be more capital investment in water infrastructure in the coming years. The delegates outlined three possible options in their paper, one being to retain the existing plan which is to have Irish Water borrowing privately at higher rates, with the State being able to borrow directly; the second being to retain the existing private financing arrangement but to borrow directly via the State as new financing needs arise, and the third being to transition all private finance into Government borrowings. Ms Fitzpatrick opts strongly for the third. Will she explain her reasons?

Ms Eileen Fitzpatrick: On the first option which is to continue with the current model, we cannot see the cost advantage from a pragmatic perspective. On the second option which is to retain existing commercial facilities, the fundamental point is that it is still cheaper for the Government. We would have landed heavily on the third option. Irish Water may have some small qualitative issues around it in terms of flexibility or certainty, or the visibility of the expenditure. A private facility - a revolving credit facility - can be drawn down or repaid at very short notice. As Government funding is not quite like that, in terms of facilitating that flexibility, one could leave a very small amount which is really for working capital, but that is a fine point.

Deputy Paul Murphy: There is a significant yearly cost in the current model versus Government borrowing. Who does the cost fall on? Is it accurate to say it falls on taxpayers? This

could be via two mechanisms, namely, the payment of direct and indirect taxes, and the payment of water charges.

Ms Eileen Fitzpatrick: Under the new model it will be Exchequer funded, so it will be from taxation.

Deputy Paul Murphy: The public will end up paying for the additional cost in the current model of borrowing.

Ms Eileen Fitzpatrick: Yes, through the taxation system.

Deputy Paul Murphy: Thank you.

Senator Paudie Coffey: There was a question regarding metering. If there is no continuation of metering it will have a fundamental impact on the cost base of Irish Water as it goes about identifying leakages and carrying out conservation, and this will affect ongoing sustainability. It is not correct to dismiss the impact of metering on costs. Can the delegation give its views on that? If we do not identify leakages and distribution patterns there will be a long-term impact.

The initial strategy was to attract external funding by virtue of the cost base being off balance sheet and that allowed the State, and Irish Water by extension, to invest substantially in capital infrastructure. The level of State subsidy was the key point and it narrowly failed the EUROSTAT test. What are the long-term implications of the investment plan? It does not matter to Ervia whether the funding comes from an external source or the State as long as one has a sustainable funding base but it does matter as far as State funding and State services are concerned. I want to highlight that point, for the benefit of the committee rather than the delegation, because the impact on State services will matter to us in our deliberations. The funding will either come from external sources or the taxpayer.

Irish Water has a capital loan from the Minister for Finance. What happens to that loan when it expires? Will it be turned into equity and how is it treated on the books of NewERA?

Ms Eileen Fitzpatrick: As regards metering, we do not have a role in policy setting and I referred to the Department of the environment in this regard. Metering has a lot of practical advantages that translate into cost savings in the future under the utility model. The utility can determine what the rate of leakage is and be very precise about usage. I did not make any comment on the importance or otherwise of metering but Ervia has already outlined many of its advantages.

Ms Maria Graham: I wish to clarify my response to Deputy Cowen on whether lenders would be neutral or not as to the question of metering being in place. There will be a session on metering at which a range of issues will be discussed around the promotion of water conservation and the cost base. There have been substantial gains from the first fix programme in identifying water resources that can be reapplied.

Senator Paudie Coffey: I had a question about capital loans. When domestic charges were suspended capital loans were introduced to continue the service and to continue the investment in Irish Water. What happened to those?

Ms Eileen Fitzpatrick: The working capital loans are generally provided to make up the difference between expected cash inflows and actual cash inflows. In the context of the suspen-

sion of domestic water charges, the capital loan, which was €96 million, was converted into equity because a working loan is not typically for ongoing operational use.

Chairman: It is moving from working capital into equity.

Ms Eileen Fitzpatrick: Correct. That applies to the €96 million.

Senator Paudie Coffey: For clarity, the subsidy for 2016 and 2017 amounted to approximately €125 million. What is the estimated increase in the subsidy to Irish Water in 2017 if domestic charges are not reintroduced?

Ms Eileen Fitzpatrick: Some €239 million is the estimate. That is on a cash basis.

Deputy Eoin Ó Broin: I thank the witnesses for the presentations. Irish Water's capital investment programme as outlined in the business plan year-on-year includes revenue funding but the majority is borrowed from private sources or the Irish Strategic Investment Fund, ISIF. If Government was to move to option three for cost reasons, as has been outlined, I presume that the balance between the smaller portion of revenue funding and the greater portion of borrowed money remains roughly the same. The source of borrowing changes and therefore the costs reduce. Is that correct?

Ms Eileen Fitzpatrick: Yes.

Deputy Eoin Ó Broin: There is no additional fiscal impact for Government from shifting that borrowing from private or ISIF to Government borrowing.

Ms Eileen Fitzpatrick: No. Nothing in the model changes except the current commercial facilities.

Deputy Eoin Ó Broin: The interest that is being charged is still being charged to Irish Water and while it is a lower level of interest, it still has to work out where that comes from within its existing business model.

Ms Eileen Fitzpatrick: Correct.

Deputy Eoin Ó Broin: We know the parameters within which borrowed funding for Irish Water has operated and I am very clear on the cost of the short-term borrowing as the €20 million figure that is in the report, but what is the projected cumulative cost of the borrowing from 2014 to 2017?

According to Irish Water there is additional borrowing from 2018 to 2021 and I would like to know what the difference is in real terms between the cost of that borrowing from the original business plan and option three, and if there is a figure that can be calculated or forwarded to us.

Mr. David Stokes: On the cumulative costs we do not have figures for 2017 but I understand that the total interest payments are in the order of €35 million to €36 million between 2014 and 2016.

Deputy Eoin Ó Broin: Some €35 million.

Mr. David Stokes: It is around €35 million or €36 million, from the figures we have.

Deputy Eoin Ó Broin: Assuming nothing is changing this year, what will the annual cost be?

Mr. David Stokes: The annual cost is around €20 million, so that would be added.

Deputy Eoin Ó Broin: Another €20 million is added to the €34 million, so it is about €54 million. Is there a figure for the difference between the cost of the finance between 2018 and 2021 from the original business plan versus option three?

Mr. David Stokes: That will ultimately depend on what rate the State decides to fund at. It could make the choice of funding on a short-term basis, as Irish Water is doing at present. That might not make a lot of sense given that this is investment in long-term infrastructure. The State, for example, could fund it on a ten-year basis at around 1.2% or 20 years at 2%, but that decision has not been taken. I cannot give an actual figure on what the saving will be but the like for like difference at the moment is the €14 million figure.

Ms Eileen Fitzpatrick: We cannot state with absolute certainty what the rate will be because markets can change. It certainly is going to be able to fund it more cheaply. The regulatory weighted cost of capital for Irish Water is about 3% across the debt.

Deputy Eoin Ó Broin: Is the figure of €14 million an annual or cumulative figure for the years 2018 to 2021?

Mr. John Dillon: It is a standard figure.

Deputy Eoin Ó Broin: From my understanding, depending on the outcome of this committee and the deliberations of the Government, Irish Water is considering returning to the application for the off-balance sheet status in 2018 or 2019. There are two issues connected to that.

When the Department of Finance representatives came before the committee some weeks ago, Deputy Murphy asked them a question on EUROSTAT. One of the reasons it gave a negative reading to the first application for the market corporation test was that there was a mismatch in the relationship between the revenue generated by the cost of domestic charges and the borrowing requirements in the plan for the capital investment programme. The consequence of that is that in order to get to an off-balance sheet position by 2018 or 2019 a higher rate or projection of a future higher rate of domestic water charges would be required. Is that the witnesses' understanding or interpretation of that bit of the market corporation test failure?

The capital projections for Irish Water sit at around €500 million until 2019, but from 2019 to 2021 they increase significantly to between €770 million to around €900 million each year. If Irish Water, irrespective of what happens with water charges, remains off-balance sheet post-2019, is it the view of the witnesses that it could meet those capital projections within the existing borrowing envelope of the State in order to comply with the European Commission's fiscal treaty rules?

I have one further question for the Department.

Ms Eileen Fitzpatrick: EUROSTAT is an independent European body. When it examines such matters, it has certain quantitative tests and is also entitled to take a qualitative view. Its opinion is absolute in these matters. Therefore, I cannot comment on its thinking process. It would apply a couple of very basic tests. It would look for the revenue to be generated to be at least 50% of the operating costs. It would look for economically significant prices to be charged and determine what the level of Government control would be.

Deputy Eoin Ó Broin: I ask Ms Fitzpatrick to put the term "economically significant

prices” in plain English.

Ms Eileen Fitzpatrick: It is very hard to say what an economically significant price is, but EUROSTAT can examine a regime of water charges across Europe. I am careful in that I am saying I cannot say what EUROSTAT thought, but it may have argued that Scottish Water charges £400 or £476.

Deputy Eoin Ó Broin: In trying to work out the economic cost, the level of borrowing projected for capital investment would have to be taken into account. If one water utility had a very low level of projected borrowing, that would impact on how EUROSTAT viewed that test, whereas a very high level, such as in the case of Irish Water, could also have an impact.

Ms Eileen Fitzpatrick: I think it might be less concerned with that than with production costs. For example, Scottish Water had a very intensive capital period which it is now coming back from, but Irish Water is at the start of a very intensive process. I do not think the capital would have played a significant role. I cannot be absolute on that.

Deputy Eoin Ó Broin: Will the capital funding post-2019 remain on or off-balance sheet? Would Irish Water be able to sustain the projected capital investment post-2019 within the existing debt rules that have been subscribed if the figure is on-balance sheet?

Ms Eileen Fitzpatrick: That would be a matter for the Department of Finance to comment on.

Deputy Eoin Ó Broin: My last-----

Chairman: We are way over time.

Deputy Eoin Ó Broin: This is my last question to the Department. One of the issues the committee has to consider is that of a charge for excess or wasteful use of water. There are two relevant questions that I think we are all interested in. Depending on where one pegs average household or personal use, what would be the potential revenue stream from it versus the cost of administering such a scheme? Depending on the estimate of average household use, is the Department examining what such a stream could raise versus what it would cost to administer it in terms of building enforcement?

Chairman: I will come in there. We are in the process of preparing or looking for a document that will answer those questions and, hopefully, we can address it at the meeting on metering.

Deputy Eoin Ó Broin: This is separate to metering. This is more in terms of-----

Chairman: I am conscious of the time.

Deputy Eoin Ó Broin: Has the Department started looking at the issue? Can it provide the committee with any information on it?

Ms Maria Graham: We have been preparing some material on scenarios for the secretariat. To answer two issues, the €5.5 billion in capital investment in Irish Water is reflected in the capital plan and is, therefore, reflected in the budgetary perspective at the moment. Obviously, budgetary arithmetic is done on an annual basis and certainty of funding - a phrase to which we always come back - is one of the issues that concerns funding models. I would have pointed to that when first before the committee. In terms of examining scenarios and revenue streams

that may come from an excess charge, this will depend on where it is set and the objective to be achieved. For instance, the plastic bag levy is an environmental charge that is designed to change behaviour. It is not intended to be a sustainable revenue source over the long term. This will be something that causes people to adapt their behaviour in order to conserve water and which will also have an impact on production costs over the long term. I am cautioning against simply looking at what are the administration costs and core revenue because the objective may sustain a different perspective.

Chairman: I need to interrupt because I want to give an opportunity to some other members to speak.

Deputy Eoin Ó Broin: Thank you, Chairman.

Chairman: That went on for a while, although they are important questions. I call Deputy Mary Butler.

Deputy Mary Butler: I would also like to speak on the capital investment requirements. We heard at earlier meetings that Irish Water's long-term investment planning strategy has been set out and that the investment required to address all known deficits is estimated to be circa €13 billion. Is the overall €13 billion figure achievable in the absence of a direct charging regime? It would appear from answers given to Deputy Barry Cowen that the capital investment programme can be met with the State being the main customer. Therefore, is this figure of €13 billion achievable with the State as the main customer? Is the timeframe for the implementation of the capital plan feasible without a direct charging regime? Those are my first two questions. I have two more, but perhaps those two might be answered first.

Ms Eileen Fitzpatrick: The €13 billion is Irish Water's total estimated cost of capital expenditure. The easiest way to look at it is that there is a business plan which has been approved by the regulator. Therefore, there is a plan. What is happening is that the revenue that was going to come from domestic customers is now coming from the State. The plan in so far as the Commission for Energy Regulation has looked at it is a feasible plan, but one line is being substituted, with the State now taking the place of the domestic customer. Whatever portion of that statement of the plan, if one likes, that was coming from the domestic customer is being substituted and the Government is stepping in lieu. Everything else in terms of financial expectations and planning etc. stays the same. There is one fixed-----

Deputy Mary Butler: Therefore, with the State as the main customer, the figure of €13 billion is achievable in the absence of a direct charging regime. Is that what Ms Fitzpatrick is saying here today?

Ms Eileen Fitzpatrick: In terms of the business plan, as set out by Irish Water and approved by the regulator, when commenting on future developments one must be mindful that markets can change and things can happen, as occurred recently. In so far as there is a sensible business plan, the answer to the Deputy's question is "Yes".

Deputy Mary Butler: As of now, the implementation of the capital plans within the timeframe set out by NewERA in previous meetings should stand.

Ms Eileen Fitzpatrick: In fairness, the greatest focus has been on the first part of the capital plan.

Deputy Mary Butler: That is the €5.5 billion to be spent between 2014 and 2021.

Ms Maria Graham: Under the business plan, approximately 46% of the capital plan would come from debt, 28% would come from equity and 26% would come from customer revenue. This refers to the period from 2017 to 2021. Under this model, customer revenue from charges would help to fund the capital programme. It is obviously feasible for the State to step in under the expert model arrangement or in another scenario. The question is the certainty one would have in this regard and what would be put in around that mechanism. The expert commission had one view in which the State would be the customer. The less revenue one has from charges, the more one has the issue of water at the table, alongside housing, transport and other areas and sectoral interests that are seeking to secure capital. This is simply part of the normal Government arithmetic.

Deputy Mary Butler: To return to the figures provided by the Department, the customers of Irish Water would only contribute 26% to overall costs.

Ms Maria Graham: Yes, 26% of the costs of capital.

Deputy Barry Cowen: That figure would only apply in a scenario of 100% compliance.

Deputy Mary Butler: On efficiency in operation, does the removal of direct customers and suspension of charges change the potential of Irish Water to meet its efficiency targets? Will the cessation of the water metering programme affect the efficiency drive?

Ms Eileen Fitzpatrick: This matter is overseen by the regulator, which has set out highly ambitious targets for a reduction in operating costs in Irish Water. I do not expect it will have an impact on the regulator's view on what would constitute an efficient operation. Irish Water must meet its targets and report on them.

Ms Maria Graham: To address the same point, obviously there is an efficiency target. Regarding its implementation, metering has given rise to issues such as identifying leakage. The benefits of metering are more long term than on a year by year basis. If money is being saved by identifying leaks and reducing consumption, the rate at which capacity and plants must be built is deferred into the future. One is, therefore, comparing a short-term issue with a long-term one.

Deputy Mary Butler: As matters stand, is metering complete as far as the Department is concerned?

Ms Maria Graham: The first phase is complete in that more than 800,000 of the targeted 1 million meters have been installed. It was always the case that phase 2 would be subject to the regulatory process in terms of the decisions around the costs and benefits of future phases.

Deputy Paul Murphy: Irish Water tried to install meters in various locations but was prevented from doing so.

Ms Maria Graham: The first phase of metering was for meterable projects, with a target of installing 1 million meters. Of these, 200,000 were not completed but the other households, which were apartment blocks and other properties that were not considered technically feasible, would have been a matter for future phases based on the costs and benefits and an examination of the technology and so forth that would be involved. This would have been a matter for the regulatory process.

Deputy Mary Butler: The current phase is complete.

Ms Maria Graham: Yes.

Chairman: We have time to allow Deputy Pringle to put one or two quick questions. Two or three other members wish to contribute but I must be conscious of time as other witnesses are due to appear this afternoon. I will allow this session to continue until 1.15 p.m. but I ask speakers to keep it tight when putting their questions.

Deputy Thomas Pringle: I will try not to ramble on. I have two questions, mainly for the Department. To go back to the response to an earlier question, it was said 26% of the capital funding was provided by domestic water charges within Irish Water. Is it not the position that the Government provides all of the capital and that the figure of 26% is not exactly accurate? Will Ms Graham explain and expand on this?

Ms Maria Graham: There are domestic and non-domestic charges in the business plan model, as well as a subvention which equates to the State purchasing water as a customer in respect of the capped charges or free allowances. The amount is equal to the allowed revenue set by the regulator. What it sets as the allowed revenue covers operational expenditure and the cost of funds referred to previously to fund the capital programme. A combination of a surplus in revenue over operations, an equity provision which in the coming years will average €270 million and an amount of debt raised make up the capital spend.

Deputy Thomas Pringle: Regarding the figure of 26% referenced earlier, does Irish Water fund the cost of borrowing, that is to say, the interest on it?

Ms Maria Graham: It comes from the revenue raised from charges.

Deputy Thomas Pringle: It funds the actual-----

Ms Maria Graham: There is revenue raised from charges; there is equity or capital contributions coming in from the State and there is borrowing. They are the three elements that make up the funding for the capital programme.

Deputy Thomas Pringle: One of the obstacles that is constantly mentioned - it has been mentioned a number of times today - is certainty of funding for Irish Water. In a situation where the State is the sole customer of Irish Water, obviously it will bill the State every year. Is that not funding of a different type from the one about which Ms Graham has spoken in terms of certainty of funding? The State can decide whether it wants to invest in roads. It is not the case that Transport Infrastructure Ireland bills the State every year for a service provided. It is a different type of funding requirement. Is that not the case? It would fall due as a liability rather than be something over which the State would have control in deciding whether to give X or Y amount. The amount billed is a liability rather than being determined by a budgetary decision.

Ms Maria Graham: Yes. It is different from a previous funding model that would have seen operations and capital expenditure funded in different ways as in other areas of infrastructure. It is dependent on the bill being presented to the State and a mechanism being in place to enable the State to honour it. There is certainty. There are mechanisms in other countries where the state, for example, gives an outline of the funding likely to be available in a multi-annual period and the regulator and the utility work in that vein. We set out in one of our earlier papers how that might work. The Deputy is correct. There is greater certainty from the utility's perspective if it can simply present the bill to the State as a sole customer and have it paid.

Deputy Thomas Pringle: The model proposed by the expert group is that the utility pres-

ents a bill to the State. There is not that level of uncertainty if it is a liability on the State rather than a decision it can make on how much it will give Irish Water.

Ms Maria Graham: It depends on what the mechanism is when the bill is presented as to whether the State will have to honour the exact bill or whether it will be part of the budgetary process.

Deputy Thomas Pringle: It is a bill that has to be honoured rather than being part of the budgetary process.

Ms Maria Graham: If that is the mechanism put in place.

Deputy Thomas Pringle: That is the mechanism being proposed by the expert group.

Ms Maria Graham: I am distinguishing in terms of whether there would be a legal or a policy requirement in place. Budgets and appropriation accounts tend to be on an annual basis and the Oireachtas does not tend to be tied to a multi-annual process in that way. What the mechanism-----

Chairman: I really need to move ahead.

Deputy Thomas Pringle: It does not tend to be, but it is not inconceivable.

Chairman: No, seriously.

Deputy Thomas Pringle: I have waited to be given time also.

Chairman: Some members may have no time. I am trying to move on. Deputy Jan O'Sullivan is next.

Deputy Jan O'Sullivan: I want to ask the NewERA representatives if they are aware of the letter of 12 January to the Minister for Housing, Planning, Community and Local Government, Deputy Simon Coveney, from the European Commissioner for Environment, Maritime Affairs and Fisheries, Mr. Karmenu Vella, regarding possible fines on the State. At the end of that letter, the Commissioner states:

[...] in order for the charge on excessive or wasteful use of water to attain its purpose, the consumption of water for normal use should be set at a reasonable level, and the charge for excessive or wasteful use should be dissuasive. The completion of metering will be instrumental to this effect.

Has NewERA done any work on factoring in the possible costs to the State of fines for breaches of EU directives?

Ms Eileen Fitzpatrick: No, and we have not seen that letter. We would not, in the normal course of our work, be party to that type of correspondence. Our role is to advise Ministers from a financial perspective on consents they might give or capital actions they might take. We have done no work on fines, their potential level or on what charges for excessive use might be.

Deputy Jan O'Sullivan: From the committee's perspective, obviously we will have to consider all of the possible financial implications of the recommendations we make. Does Ms Fitzpatrick envisage that NewERA might be asked to look at that?

Ms Eileen Fitzpatrick: That would be a matter for the Minister. I do not know if the departmental representatives want to answer-----

Deputy Barry Cowen: Just on a point of order, did the Commission write to this committee too?

Chairman: The Commission wrote recently to confirm the names of those who will be attending. That is the only-----

Deputy Jan O’Sullivan: This letter was-----

Deputy Barry Cowen: The Commission made no comment on the expert commission’s report-----

Deputy Jan O’Sullivan: -----circulated to all members of this committee. It is a letter from the Commission to the Minister, Deputy Coveney, but it was circulated to the committee. It is on that basis that I am asking the question.

Chairman: It was circulated a number of weeks ago. One or two members asked for that letter so we got copies of it. I am keen to go on. I understand that this is not an area or space with which NewERA deals, in terms of what the fines might be.

Ms Eileen Fitzpatrick: The point is that they are fines for the State.

Chairman: Yes, so, as I understand it, that is outside the brief of NewERA.

Ms Eileen Fitzpatrick: Absolutely. We would not normally deal with such issues.

Deputy Jan O’Sullivan: I know we will have representatives of the Commission before us but maybe the departmental representatives would comment on that, in terms of whether it has done any work on the question of fines.

Chairman: Can we have a quick “Yes” or “No” answer?

Ms Maria Graham: We can probably get some data for the committee on levels of fines from other sectors. I am not aware of anything on the same scale that would allow us to speculate on the potential size of the fines.

Deputy Jan O’Sullivan: I am conscious that other members want to contribute so I will not put my second question to the witnesses.

Chairman: I thank Deputy O’Sullivan for that. Deputy Kate O’Connell, who has been very patient, is next.

Deputy Kate O’Connell: The witnesses have not considered the impact of fines. The water bill is projected to be €13 billion over ten years. In the context of the recommendation in the expert group’s report that there be a charge for excessive usage, has the Department considered the possibility that it might have to give money back to people who use less than the water allowance? Has consideration been given to the possibility of a monetary reward for water conservation? Perhaps people might get a cheque if they have barrels to collect rainwater or if they invest in their homes. Have the witnesses considered the impact of that?

I want to get the figures clear in my head. There is a €5.5 billion investment out to 2021 and the €13 billion figure is for ten years. Is that correct?

Ms Eileen Fitzpatrick: Yes.

Deputy Kate O'Connell: The shortfall is €239 million per year from non-payment of domestic water charges. If there are no domestic water charges for ten years, that adds up to the guts of €2.4 billion. Am I correct in saying that is the amount we will be out?

Ms Eileen Fitzpatrick: Yes, roughly.

Deputy Kate O'Connell: That is the price of two children's hospitals. I just thought I would put that to the committee - that is the value of the money and the cost to services of the non-payment of charges.

Chairman: Senator Lorraine Clifford-Lee is next and I thank her for her patience.

Senator Lorraine Clifford-Lee: I will be as brief as possible. My questions are directed to the Department officials. The Irish Water assumed compliance rate to the end of 2017 was 73%, with expected cash receipts of €259 million. Following the suspension of water charges in the first quarter of 2017, the Department of Finance adjusted the expected cash receipts amount by 25% to €194 million. On what basis was it assumed the compliance rate would be 73%? The reduction in cash receipts will have a knock-on effect in terms of future public finances. The Minister for Public Expenditure and Reform announced a new public pay deal of €170 million which is to come from within existing resources. Has there been any allocation of resources by the Department of Housing, Planning, Community and Local Government to that pay deal and, if not, is there any scope for that going forward?

Ms Maria Graham: By way of clarification, the €13 billion is over 20 years. In regard to the suspension of water charges, over the term of the business plan assumptions were made around levels of compliance which, as members will be aware, were rising all the time. As stated by Ms Fitzpatrick, in addition to the subvention, the Department would have given a working capital loan to Irish Water in recognition of the lag between billing and receipt of income. In terms of 2017, the working capital loan was €39 million and it was converted to subvention to address the gap between expected revenue-----

Senator Lorraine Clifford-Lee: On what basis was it assumed that the compliance rate would be 73% given actual compliance in 2015 was 53%? On what basis was it expected there would be a 20% increase?

Ms Maria Graham: The plan dealt with the position from 2015 to 2021 in a rising sense and the funding reflected that over time. The plan for Irish Water is based on an accruals basis and we look at what its cash requirements are on a year-by-year basis. Its cash requirement in terms of subvention was originally €474 million. That reflected its expected intake in terms of customer revenue. We added €125 million to that to deal with the suspension of charges.

Senator Lorraine Clifford-Lee: As matters progressed, did the Department not see a need to readjust that figure?

Ms Maria Graham: We deal with it in terms of accruals or actual bills and in the expectation that the billed revenue comes in at some point - in other words, the billing for 2017 is the expectation in terms of receipts. The working capital loan deals with the lag in that regard.

Senator Lorraine Clifford-Lee: So there is no reality to the 73% rate?

Ms Maria Graham: The percentage was chosen on the basis of what the expectations would have been of a utility and what our expectations are in terms of Irish Water receiving its

revenue.

Ms Eileen Fitzpatrick: The atypical pattern is that it does rise over time.

Senator Lorraine Clifford-Lee: Is Ms Fitzpatrick speaking about an atypical pattern from abroad?

Ms Eileen Fitzpatrick: Yes, and the ESB. One can only look at other benchmarks.

Senator Lorraine Clifford-Lee: My second question was whether the Department of Housing, Planning, Community and Local Government will be allocating resources to the public pay deal.

Ms Maria Graham: I am unable to respond to that question as I deal only with issues relating to Irish Water. The Department's 2017 Estimates in relation to current pay are set out. Future pay levels will be a matter for the Department of Public Expenditure and Reform.

Deputy Barry Cowen: We are asking for information that might inform the committee on the likely impact of the pay deal on the Department.

Chairman: Perhaps Ms Graham would provide a written answer to that question to the committee or would respond to it by way of response to a parliamentary question.

Senator Lorraine Clifford-Lee: It is a question I am very eager to get a response to.

Ms Maria Graham: The figure of €240 million has been used as a general estimate of the likely extra cost of what needs to be replaced. If revenue is generated through an excess charge, it abates that amount somewhat. That revenue would have to be found by the Government somewhere.

Deputy Barry Cowen: Some people have been finding revenue according to statements from-----

Ms Maria Graham: It is not-----

Deputy Barry Cowen: -----the Department of Public Expenditure and Reform in recent months. I need to know what impact that will have on the Department and the potential of our committee to make a recommendation.

Ms Maria Graham: All that is reflected in the Department's Estimates at this stage is the suspension of charges. Nothing else is reflected. That decision would have to be made based on the outcome of this committee.

Chairman: I propose that we ask for a written reply. There will also be an opportunity to ask a parliamentary question on the matter.

I thank NewERA and the Department of Housing, Planning, Community and Local Government for their assistance this afternoon. That concludes this part of the meeting. We will suspend briefly to enable our next witnesses to take their places.

Ms Eileen Fitzpatrick: For the record, I alluded to €810 million of external borrowings.

Chairman: Ms Fitzpatrick did.

Ms Eileen Fitzpatrick: The total borrowings were €1.26 billion, including a loan from the

Ireland Strategic Investment Fund, ISIF, but we were discussing external borrowings because it was within government.

Chairman: Ms Fitzpatrick has reminded me of an important question asked by a number of members at previous meetings. When, or if, Irish Water borrows, are those borrowings secured against the assets of Irish Water or its cashflow?

Ms Eileen Fitzpatrick: They are unsecured.

Chairman: I thank Ms Fitzpatrick.

Sitting suspended at 1.17 p.m. and resumed at 1.19 p.m.

National Federation of Group Water Schemes

Chairman: I must read a note on privilege. I draw the witnesses' attention to the fact that, by virtue of section 17(2)(I) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. However, if they are directed by it to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or an entity by name or in such a way as to make him, her or it identifiable. Any submission or opening statement submitted to the committee may be published on its website after the meeting.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

At the request of the broadcasting and recording services, witnesses and those in the public Gallery are requested to ensure that for the duration of the meeting their mobile phones are switched off completely or switched to airplane, safe or flight mode, depending on the device, and not just put on silent mode.

I welcome Mr. Colm Brady and Mr. Brian MacDonald from the National Federation of Group Water Schemes. They have submitted copies of their statements which have been distributed to members. I invite committee members to ask questions.

Deputy Alan Farrell: I welcome our guests and thank them for making themselves available today. We all have our views on what constitutes excessive usage. I appreciate the Commission for Energy Regulation will be tasked with setting the figure. The witnesses specifically referred in their submission to the importance of a dissuasive argument for those who are prone to wasting water, or even to determine whether people are wasting water. What are the views of the witnesses on the level at which this should be set?

We have a very obvious question of fairness, particularly to those who provide their own water supply, such as group water schemes throughout the country. They provide a significant saving to the Exchequer. In the long term, it is most likely cheaper for them to provide the water supply to their communities than for the State to do so in certain instances. Otherwise, I would

argue, group water schemes would not exist. How do we square this circle? How do we deal with the basic inequality we will have if the current arrangement is adopted through the expert report, with regard to people paying for excessive usage versus those in private group schemes who will pay a charge regardless? I understand there is State subvention, and this has been restored as of the suspension date to 2015 levels. I know the witnesses are calling for additional subsidies, and it is in the report which is helpful no doubt to group water schemes. What are the views of the witnesses on this?

Do the witnesses believe it is possible for private group schemes to provide the service the State provides in housing estates throughout the country cheaper than the State provides it? Do they have a view on how this would be achieved? I am sure they can appreciate we have spoken to the commission, Irish Water, NewERA and departmental officials on numerous occasions in recent years, where the total cost of the provision of the water and the wastewater networks throughout the State has been highlighted. All the while, hundreds of thousands of people already pay for water and their local community water services. With very few exceptions, certainly in the advice with which we have been provided, I have seen examples of excellence in the service provided by group water schemes, no more than by State providers. Do the witnesses have a view on the ongoing sustainability of the group schemes they represent?

Mr. Colm Brady: I will deal first with the second issue on fairness and equity. I presume the Deputy is talking about Irish Water and other service providers versus the group water scheme sector. As mentioned in our submission, since the late 1990s when domestic water charges were abandoned on the public water supplies, the group water scheme sector has been getting a subvention towards the cost of supply and treatment of domestic water services. That has been in place since then. Group water schemes come together as a group, assess their own individual overall costs, assess what they can get through the subsidy and then agree among themselves as a group with the leadership of the committee of management or board of directors as to what they are prepared to contribute directly towards the costs of their group water supply scheme.

That subsidy has been reviewed a number of times since then. We have a partnership arrangement with the Department of the Environment, Community and Local Government, as it was, and now the Department of Housing, Planning, Community and Local Government. We review that on behalf of the schemes with that Department. In all instances we have had a good relationship with the Department and found that it takes our views on costs into account. That review has always been an upward review, apart from the time when domestic water charges were reintroduced when we had a reduction in that subsidy.

Irrespective of what comes out of this process, whether it be a charge based on excessive usage, a charge that is based on a charge that is there currently but suspended, or no charge at all, we would expect to sit down with the Department. We have received assurances from the Department, and I am sure all the people here would give us the same assurances, as to what this committee would recommend.

We have been given assurances that we will get a review of that subsidy and that situation. We have flagged, and we always would flag, additional charges that have arisen since the previous review in 2008. We refer to some of those charges here and we would expect those additional costs to be taken into account in any review. The equity arises in the operation and maintenance cost. We would expect that equity would continue to apply through that process.

Group water schemes have been getting capital grants towards the capital costs of new

group water schemes and upgrading old group water schemes. The old group water schemes I am talking about were installed in the 1960s, 1970s and 1980s. Those group water schemes were effectively in a mess in the late 1990s and were the subject of a European Court of Justice case. There had always been grants for the group water scheme sector, but at that stage the grants were significantly increased. A serious amount of work was done under that rural water programme, as it was, again in partnership with the Department and local authorities through the national rural water services committee. That work has been done.

Without fear of contradiction, I can say that at this stage the group water scheme sector, through that grant aid process, is probably in a better position from an infrastructural point of view than Irish Water. All the reports we have seen to date indicate that Irish Water is in need of serious investment in order to bring its infrastructure up to date. We are ahead of the posse there and have achieved that through that grant aid. We would expect that grant aid to continue through the process if that level of support is there for Irish Water and its capital costs.

Group water schemes contribute to the initial capital costs and the capital costs of any improvements and replacement infrastructure. It is a programme that is very focused on getting value for money and only replacing infrastructure where it is needed. Around all that, through that rural water programme, the whole area of metering came into play big time.

Group water scheme committees of management would have been iffy about metering in the beginning. Through the process of metering, and I mean individual meters for tens of thousands of members across hundreds of group water schemes right around the country, it immediately became very evident that most or at least a very high proportion of the excessive usage or leakage, whatever we want to call it, was on the consumer side of the meter, particularly when the contribution mechanism based on volume of usage came in. Through that, the usage and demand came down. The amount of infrastructure required also came down, such as reservoir storage. There were instances where projects for planned reservoirs could be abandoned because of the reduction in usage. That was one of the savings. There was a saving for operational maintenance costs since the more water put through a system, the more maintenance required. That has come about through all that. Group schemes would say, without contradiction, that universal metering as a management tool and as a water conservation tool on their group water schemes, combined with a reasonable charge on usage over and above a free allowance, has been the single driving force behind the overall transformation of the sector.

I will address excessive usage and what it constitutes. Our research on the group water scheme sector, and we can only deal with the thousands of members on group water schemes that we talk about, shows that the average usage of a household would range from about 120 cu. m to 150 cu. m per annum. That would be based on metered usage in the context of a metered water charge over a particular free allowance.

Chairman: I am sorry to interrupt Mr. Brady. He has been giving really valuable information and that is why I have let him roll on for over ten minutes but I also want to give others an opportunity to come in, if I may. Please keep the answers as tight as possible. We have less than half an hour left.

Mr. Colm Brady: I did not even realise it was ten minutes.

Mr. Brian MacDonald: I will come in on the issue of sustainability. I think it is a very good question. We still have issues to resolve. We have a lot of very small rural water supplies out there. We are working with the Department and it is very much a partnership approach. It

is actually 20 years ago this month since the co-operative, collaborative approach to subsidy arrangements was made for group water schemes. One of the major focuses of the National Federation of Group Water Schemes in the time ahead is to ensure sustainability and we have begun a process of rationalisation within the sector. We are not content with being as good as Irish Water. We want to be better than it. There is evidence out there that a lot of schemes have attained that and we are going to continue on that road.

Chairman: I call Deputy Cowen.

Deputy Barry Cowen: I thank the group for making the presentation. It was most impressive and useful. The main recommendation of the Expert Commission on Domestic Public Water Services and the duty of this committee thereafter is to find a funding mechanism to deal with the implementation of that. In recommending that the State become the main customer for provision of domestic use, it also, to inform Deputy Farrell, recommends and asks that we seek greater parity and equality for those who fund that from their own resources in addition to State help and assistance. That point has to be made. It is our duty and what we want to do. We want to get some information from the witnesses that allows us to be in a position to make a recommendation that can close that gap. It has not been closed in recent years, I would add.

I have some specific questions to help to do that. Has the National Federation of Group Water Schemes calculated the estimated cost per household of a group water scheme bill? In other words, what is the average bill throughout the country? Has it calculated that and can it be made available to the committee? How much would complete subsidisation of group water schemes cost per annum, to equalise completely with the public provision? What is the current average subsidy per group scheme from the State? How does that equate to the customer, the end user? In other words, what is the average subsidisation in respect of each user? We will end up with subsidisation if we proceed along the road in respect of public supply and we did not compare that with existing subsidisation of the rural sector so that we can seek to address parity, if necessary. The agreement we reached with Fine Gael put a pathway in place to deal with this issue and allow the Government to continue to function so as to deal with many other pressing issues, as we saw last night, for example. Can the witnesses confirm that grant aid was reinstated when we suspended charges? Did it increase because a commitment was given that it would increase? As authors of the agreement, we need to know to ensure that what we were seeking at that time, namely, to ensure greater parity and equality, has been achieved. This committee has a greater responsibility to ensure greater parity and equality in the event of it making a recommendation to the Dáil for its acceptance.

Mr. Colm Brady: In respect of the Deputy's final point regarding confirmation that the grant aid has been reinstated, there are two different type of schemes. There are schemes that get water from Irish Water and those that produce, treat and supply their own water. In respect of the schemes that got their water from Irish Water, prior to the introduction of charges, the subsidy was €70 per household. This reduced to €40 per household from 1 January 2015 when the charges for domestic water supply were introduced.

Deputy Barry Cowen: There was less equality and parity.

Mr. Colm Brady: It was reduced when the charges were introduced. Subsequent to the charges being suspended, it was brought back up to the same level. It was the same for the privately sourced group water schemes with the basic subsidy of €140 being reduced to €95 and subsequently restored to €140. The subsidies were restored in full from 1 January 2016.

In respect of the maximum limits on capital grant aid, the current capital grant is €7,650. It was increased by €1,000 for new group water schemes possibly two years ago but in the past 12 months, it was increased by €1,000 for existing group water schemes. That is a cap. One does not get €7,650 unless the cost of one's project is over the full cost of €9,000 per household.

Deputy Barry Cowen: €9,000 per household.

Mr. Colm Brady: Per household, and one made a contribution of 15% towards those costs for the scheme. That is where the figure of €7,650 comes from. That is an increase in capital grant aid. I do not have the calculations relating to subsidy costs per annum. In respect of the subsidy, including the costs of administration on the local authority side of the subsidy and the rural water programme and some other minor elements of that, the overall subsidy for the group water scheme sector is about €21 million to €22 million.

Chairman: I have some facts that might be helpful. I understand that the operating cost subsidy in 2015 was €19 million and the capital grant in 2015 was €11.5 million.

Deputy Barry Cowen: We need to be able to drill down here to get the average group scheme subvention. Knowing the average bill, we want to find the average subvention in respect of each household. It is not a problem if Mr. Brady does not have that information with him today but the committee would like to have it.

Mr. Colm Brady: What I can say is that the subsidy for schemes that get their water from Irish Water is €70 per household. As well as that, they get an allowance from Irish Water of usage for which they are not charged because-----

Deputy Barry Cowen: Has Mr. Brady quantified the value of that?

Mr. Colm Brady: Depending on the local authority area, it ranges from €140 to €227 per house per annum.

Deputy Barry Cowen: We need to be able to quantify and see as plainly as possibly the cost of public and private supply and equalise them because the impression is that there is greater disparity than there might be.

Mr. Colm Brady: The background to that allowance from Irish Water is that the group water schemes do not have to meet the cost of treating and pumping that water so that is part subsidy.

Deputy Barry Cowen: It is a value too.

Chairman: Will Mr. Brady come back to us with written answers to those questions, which are probably very important to the committee?

Mr. Colm Brady: We will in so far as we can, but the Chairman has to understand that there is a whole range of group water schemes from ten-house schemes right up to schemes with approximately 1,800 houses, which would be the biggest scheme in the country.

Deputy Barry Cowen: Just the average-----

Mr. Colm Brady: The average we will get will be a very average figure. It will not really bear any relevance to most of the group water schemes, but we will get it and outline the background to it.

Chairman: The average bill per household, how much it would cost for complete subsidisation, average subsidy for each user at present and-----

Deputy Barry Cowen: There is the add-ons on top of the €70 subsidy. I recognise the €70 subsidy, but Mr. Brady mentioned add-ons that have not been quantified or costed. We do not have those figures.

Mr. Colm Brady: The Chairman and the Deputy are referring to the average subsidy, the average bill and the average-----

Chairman: The average bill, how much it would cost for a complete subsidisation and the average subsidy for each user at present-----

Deputy Barry Cowen: That is, what the State is paying. How much the State is paying in that household, the same as it is going to pay in a public-----

Mr. Colm Brady: The question about the estimated cost is the same question, so that is all done.

Chairman: Are we okay, Deputy? May I go ahead?

Deputy Barry Cowen: That is fine. I thank the Chairman.

Chairman: I call Deputy Ó Broin.

Deputy Eoin Ó Broin: I am happy for these questions to be added to those to get a written reply if that is necessary.

Mr. Colm Brady: I appreciate that.

Deputy Eoin Ó Broin: I also wish to emphasise that, whatever the outcome of the committee's meetings, there has to be absolute parity between those in group or private water schemes and those not in them. That is probably the priority for all of us in this particular discussion. One of the things I was interested in asking about, and again a written response is fine, is the gap between the subvention and the actual cost. If the subvention is €70 per household, what is the total cost of the scheme and what is the difference?

Mr. Colm Brady: I think that is the same question-----

Deputy Eoin Ó Broin: Exactly; just to emphasise it.

Likewise, with the capital grants, if a constituent in a large urban area of Dublin builds his or her own home, there is a cost to connect to the water mains. Currently he or she has to pay the local authority and Irish Water and those costs are now increasing. In South Dublin County Council, people have to pay €3,000, €4,000 and, sometimes, €5,000 now. I would be interested to hear more from Mr. Brady in his detailed written response about what kinds of works those capital grants go towards. What do they cover? What do they not cover? This will allow us to try to make a comparison between the capital cost for a household in a group water scheme in rural Ireland versus those in an urban area.

Mr. Brady's submission also referred to the reduction in consumption, which in some cases was between 60% and 80%. I would be interested to know if that was a result of the detection of leaks, whether inside the private property or otherwise, or a change in behaviour and a reduction in usage. Has Mr. Brady any data on that?

Some of us in urban areas in Dublin still have group water schemes. My experience is that some very much like being in group water schemes and do not want that to change. They want equity and parity in terms of whatever outcome there is for others. However, I also deal with people in group water schemes who would prefer to be in the public water system. The difficulty, of course, is that historically the local authority was not able to fund the work, so in a sense they are outside the public water scheme but not by choice. How reflective are those two experiences of Mr. Brady's affiliates? Is there a desire among some to retain their current position but, obviously, to improve its funding? Do others want to be part of a public water scheme or does it depend on the circumstances and the funding that would allow it?

Mr. Colm Brady: For the most part, where there are people prepared to do the work and manage the schemes on behalf of the members, there are those in group water schemes who would like to remain in them. There are quite a number of group water schemes that have made the decision or are waiting to make a decision to apply to be taken in charge by Irish Water, as it is now, under the terms of the Water Services Act. We have worked with Irish Water and the Department, in a partnership way, to develop protocols and procedures in this regard. Those protocols and procedures are as good as finalised at this stage and work has started on taking over those schemes. Obviously, those involved in the schemes would like to move this forward more quickly. We will work with the Department and Irish Water to do that but, of course, funding comes into all of this.

On the reduction in demand, it was a combination of leakage and change in practices, but it was all down to the fact that, whether they fixed the leak or changed their practices, with the volumetric charging in place they were going to have a cost. Even I, in my situation at home, came across a leak that I would not have come across only for my having a meter in place. It could potentially have cost thousands over years. As I knew it would happen and was aware of the implications for the environment and every other thing, I made sure to fix the leak. That is what we are experiencing all the time. The other questions have been asked and I will let Mr. MacDonald come in.

Mr. Brian MacDonald: On the specifics, we reckon that about half the leakage on any distribution main was found on the consumer side of the connection. It was not quite half in some cases and more in others. The level was pretty high in some schemes, and there was very high usage. As members will see from the submission from the federation, there is a lot more pipework in a group water scheme per household than there is for households under Irish Water. Therefore, the measure was essential. Obviously, the bulk meter did a significant job in identifying sections of main posing a problem. The tendency in the local group scheme was to believe the system was leaking like a sieve, leading to the view that the pipework should be replaced. Replacing the pipework would not have actually solved the problem because most of the loss was not in the pipe at all but on the consumer side of the connection. We could not have identified that without the individual meters. That explains what we very much tend to favour. At a number of seminars we had recently, we asked group scheme administrators which of all the technological advances of recent years has been most significant. Without exception, they replied it was the introduction of individual metering.

Deputy Paul Murphy: I thank the delegates for their submission and for attending. I read *Rural Water News*. There is a very important editorial in it that is printed in bold by the delegates. I agree with it very much. It states that to ignore the group water scheme subsidy arrangement introduced originally when public domestic water charges were abolished in the late 1990s leads to a one-sided debate and an unnecessary and unhelpful urban-rural division

on the water issue. The good news, it states, is that advance payments at the restored subsidy rate were paid out to schemes in mid-December by way of a supplementary payment. For me, that is very important because there has been an attempt to create an urban-rural divide, which is not at all helpful. Those of us who campaigned against water charges did so for everybody. Is it fair to say the fortunes of those on group water schemes, in terms of the amount they end up paying out of their own pocket, have fluctuated in line with those of people in the public water scheme, albeit not to a point of complete fairness because I do not believe such a point exists? When water charges were abolished, the subsidy was introduced. When water charges were reintroduced, the subsidy was cut, and when water charges were suspended, the subsidy was increased again. Have the interests of those on group water schemes not fluctuated together with those in the public scheme?

Mr. Brian MacDonald: That is actually true. Following the report of the expert panel, there was a tendency to present those on group water schemes as victims. We do not see ourselves as victims. We have worked under various Ministers from various parties, and the Department has consistently been a huge boon to the scheme. That was not being reflected in the commentary immediately after the report of the expert panel. All sides of the House recognise that the schemes are doing a job.

The subsidy associated with the group water scheme is, of course, predicated on the existence of free water, as they call it, on the public side. We do not take issue with that. We do not take issue with the recommendation that it be financed through the public Exchequer. Clearly, many schemes could not function without subsidisation at present. It is important to us but we have to come back to what Mr. Brady mentioned in respect of our relationship with the Department. We have total confidence because, over the years, a partnership arrangement developed in which the concerns of the group water scheme sector have been reflected. We see what is happening in the public sector being reflected. In the review of subsidisation in 2013, a set of principles was agreed. We would certainly be up to submitting them. Among them is the principle that equity will always be maintained for the group water schemes sector. Therefore, we are very confident that the Houses will reflect that.

Deputy Paul Murphy: That is very helpful. To follow up on that, I have a point related to some questions already asked. If we arrive at a position in which those under Irish Water do not have any charges, we must have an arrangement whereby, at least in terms of current expenditure as opposed to capital expenditure, those in group water schemes do not end up paying charges from their own pockets. Some of Deputy Barry Cowen's questions were on figuring out how much that would cost. The question on the average bill for an individual is very important. I have heard that the average charge, with the subsidy, would be around €100, €120 or €140. Is that in the right ballpark? If subsidies were doubled, at a cost of €25 million, we would probably be able to eliminate current charges. What is the experience of the witnesses in regard to this question?

Mr. Colm Brady: We will come back to the Deputy on the average charges because we do not have the figures to hand. On the question of eliminating charges, because of the success of the model until now, I cannot see group water charges going back to a situation where they do not have a direct contribution from members, agreed on the basis of usage. The Deputy is right that a doubling of the subsidy would mean an extra €20 million or €21 million for the group water scheme sector.

Mr. MacDonald set out the principles, which are fair treatment between drinking water consumers and the public group water sectors; recognition of particular cost structures and

networks; subsidies continuing to be tied to conditions which support customer charters, compliance and optimal management; ensuring the combination of capital grants and operational subvention to provide schemes with the capacity to sustain drinking water quality improvements; arrangements which are as straightforward as possible and which recognise the scale of the sector; and promoting water conservation and source protection. We are confident that those principles will apply in any review of the subsidy. Our organisation was founded back in 1997 on parity and equity and we have fought for those since then. We have worked with the Department and with successive Governments and Ministers, we have been very successful and we expect to continue with that success. We are delighted that the expert commission recognises that and we are delighted with the response we are getting from this committee and the fact that its members are also concerned about equity and parity.

Chairman: Senator Coffey is next. I will try to get Deputy Pringle in but there is another committee at 2 p.m.

Senator Paudie Coffey: I note what delegates said on the success of metering for group schemes in terms of reducing demand and contributing to conservation and sustainability. It is very important for the committee, in its deliberations, to have some understanding of a typical bill for a person on a group water scheme. If we are to be treated fairly and equitably, which is what we all want and which is a recommendation of the expert commission, we need an understanding of those figures. There will be realism about our recommendations as to how this may be subsidised by the State. I acknowledge the work done by group water schemes on supply maintenance and the treatment of their own water supplies and this needs to be continuously maintained and subsidised. We will have to come up with recommendations to the Dáil on how we can treat group schemes fairly in relation to others on public water supply. It is a very important point and I ask the witnesses to come back to us, either with averages or typical bills.

Mr. Colm Brady: We can do that.

Senator Paudie Coffey: Since the establishment of Irish Water, have the witnesses seen much consolidation among members? Have there been many examples of taking in charge? I am from Waterford where there were a substantial number of individual schemes and there has been some consolidation.

Mr. Colm Brady: There are two examples of consolidation. One is within the sector itself with group water schemes amalgamating to generate economies of scale and the Senator referred to the other example, which is consolidation with Irish Water. Many group water schemes supplied by Irish Water have considered asking the latter to take them in charge and there is provision under the Water Services Act 2007 to apply for this.

Senator Paudie Coffey: We can get more information from Irish Water on the number of schemes that have been consolidated.

Mr. Colm Brady: It has really only started in the past 12 months.

Senator Paudie Coffey: Is there an indication or a preference from the members of the federation to be consolidated or taken over or to continue as things have been?

Mr. Colm Brady: As I said in response to an earlier question, it depends on the particular group water scheme. If there are people who are prepared to manage it on behalf of the scheme, the scheme generally wants to stay as it is. Others want to be taken over.

Mr. Brian MacDonald: There are approximately 200 schemes that have requested being taken in charge. I think that is the key issue, and hopefully that will be progressed. There is a long lead-in period to it, getting all the ducks in a row. That is likely to begin, we hope, sooner rather than later, because many of the schemes are orphan schemes which are in a diabolical state with no committee of management. Sometimes they are connected to one another. There is a lot of work to do there, but the federation has been working closely with Irish Water and with other stakeholders, including the Department, to progress that as soon as possible.

Senator Paudie Coffey: In terms of equity and fairness, I think no Oireachtas committee will ever put a value on the time and voluntary effort that the committee members of the federation have put in over many years to the provision of water in our communities, and I do not know how we can square that circle in terms of acknowledging the value of that input. It is a pity that the Right to Water campaign was not here today. It was invited by this committee but it failed to send delegates. It is a pity that it is not here to listen to the contributions the members of the federation have made to society and their communities.

Mr. Colm Brady: I agree with the Senator, and it would be wrong of us not to acknowledge that too. Right across the country for over 40 or 50 years-----

Senator Paudie Coffey: It is important to put it on the record of this House.

Mr. Colm Brady: -----group water schemes have worked in a largely voluntary capacity. The other issue in regard to that, and where charges in group water schemes can rise, is that in order to comply with drinking water regulations it is no longer sufficient to operate group water schemes in a voluntary capacity. There is a need for professional, paid management and caretakers to meet these regulations, and we are working with the group water schemes again. We have a lot of management structures in place. That is just one of the areas where there might be an increase in costs associated with that.

Deputy Thomas Pringle: I would like a bit more time to expand on some of these questions. Is it true to say that prior to the introduction of the rural water programme the management of group water schemes was quite haphazard and varied significantly from scheme to scheme? Some schemes had paid staff to actively manage the consumption of the scheme. Quite a lot of schemes had none. The figures in regard to consumption and things like that are quite skewed because the first active look at the consumption figures on schemes was in conjunction with the major capital investment under the rural water programme.

Mr. Colm Brady: It would have been based on actual consumption on those particular schemes, but I take the point. Effectively, group water schemes were put in the ground on day one. They were left to their own devices for the most part, and they were being funded entirely by the members of the group water schemes. The people operating those schemes did a serious job in the context of the resources and time they had available to them. It was for the most part a voluntary effort by very good volunteers. Volunteers can manage group water schemes very effectively. The point I am making is that the public health issues in the regulations do not allow the schemes to continue in that capacity into the future but there will always be a place for volunteers in group water schemes.

Deputy Thomas Pringle: I am not disputing the work or doing anything to denigrate the work that people do in a voluntary capacity in group schemes but the point that I am making is that we are not really comparing like with like. The group water scheme sector has done a huge amount of work in improving the quality and standard of water on their supplies. With regard to

the information that we have asked for in regard to the average cost of schemes, it is important for the work of the committee to actually link that to the individual schemes and the type of treatment that is on the scheme. Many schemes would have simple disinfection whereas other schemes would have quite detailed dissolved air flotation, DAF, machinery which would mean different costs. It would be useful for the committee if the average costs were actually tied into the type of treatment used in the schemes.

Chairman: That is a very valuable point. Can you add that to your submission? I thank Mr. Brady and Mr. MacDonald very much on behalf of the committee. Their presentation was absolutely first class and extremely helpful.

Mr. Colm Brady: Can those questions be referred to us, please?

Chairman: We will refer those questions to you.

Mr. Colm Brady: We are preparing a submission on equity and fairness, so we can include it in that.

Chairman: The meeting is now adjourned. The next meeting of the joint committee will be held tomorrow at 1.30 p.m.

The joint committee adjourned at 2 p.m. until 1.30 p.m. on Wednesday, 8 February 2017.