Secure Supply?

The Future of the Irish Water Sector

March 2012
The failure to adequately invest in water services is evidenced by the failure to put in place a standby supply of water for the most densely populated areas.

1. **Introduction**

1.1 Congress welcomes the opportunity to play a constructive role in the debate on how the reform of Ireland’s water sector should proceed, the structural changes needed to improve the efficiency of the sector, the pace of the reform programme, the impact on the various stakeholders in the sector and how the sector is to be financed so it can deliver and maintain first class service to the public and develop a modern water and waste water distribution system.

1.2 For Congress the starting point in this debate must be the recognition of water as a public good. The United Nations Committee on Economic, Cultural and Social Rights recognised that access to water was a human right and that it was a social and cultural good and not merely a commodity. In November 2002 they issued a statement clarifying that water was a limited natural resource and a public commodity fundamental to life and health.

1.3 In recognition of the unique position of water most countries have organised its production and distribution through public authorities. A recent report prepared by the University of Greenwich for Public Services International found “that in over two thirds of the EU water is supplied by municipalities, and one country the Netherlands has even passed a law to make water privatisation illegal. In the USA, attempts by water multinationals to take over water business from municipalities have largely failed, and the great majority of water in the USA – about 85 – is still run by municipal companies”.

1.4 In Ireland we are in a very fortunate position that we do not have a shortage of water. However we do have some well publicised infrastructural deficits that have the potential to compromise the security of supply to citizens and other users. Some commentators have sought to blame Local Authorities for these deficits. The reality however is that years of under investment in distribution networks by successive Governments have compromised these networks. The failure to adequately invest in water services infrastructure is evidenced by the failure to put in place a standby supply of water for the most densely populated areas of the country. Comparable European countries have standby supplies of 50% to 100% of potential demand to guarantee supply in circumstances where it may be compromised.

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1.5 Congress does recognise that reform of the sector is required. However we come to the debate on the basis that the production, supply and control of water and waste water must be firmly rooted in the public sector. Any proposal to privatise the water sector will be resisted by Congress and its affiliated unions. Given the disaster that we all witnessed following the privatisation of Eircom, the privatisation of the former state banks and the recent difficulties associated with the privatisation of the bin collection service in Dublin City we believe that any attempt to privatise the water sector or any of its component parts will also be resisted by citizens.

1.6 There are five further sections in this document. In section two we set out the context for the debate on the reform of the water sector. In section three we summarise the main points of the Departments position paper. Section Four is entitled Congress Observations and in this section we critique some elements of the PWC report and recommendations and the principal proposals made in the Departments position paper. In section five we list the main areas of reform that Congress would propose for the water sector and we conclude by setting out what we see as some of the key decisions that will need to be taken as part of the reform process.
2. Context

2.1 In December 2010 the Irish Government agreed a programme of financial support with the European Union (EU), The European Central Bank (ECB) and the International Monetary Fund (IMF). The agreement required the Irish Government to implement measures contained within a Memorandum of Understanding (MOU). One of the measures contained within the MOU was a commitment to “move towards the full cost-recovery in the provision of water services”\(^3\). The MOU also proposed an “independent assessment of transfer of responsibility for water services provision from Local Authorities to a water utility”\(^4\).

2.2 The 2011 Fine Gael Election manifesto signalled a number of reforms that they would make in the water sector if elected. These include:

- “the creation of a single water utility company to take over responsibility of water from the fragmented Local Authorities that will use new investment and best practice to deliver better water services”\(^5\);
- “Fine Gael will only support the introduction of water charges when responsibility for water delivery is transferred from 34 Local Authorities to a single national water company, which will be responsible for cutting operating costs and making the investments needed to fix water leaks”\(^6\).

2.3 The 2011 Labour Party manifesto contained the following reference to reform of the water sector,

- “Labour does not favour water charges that do not address the immediate needs of those who currently receive intermittent or poor water supplies. Labour will continue to invest in the water services programme as part of the capital programme budget, focusing on treated water lost through leakage”\(^7\).

2.4 The Programme for Government agreed between The Labour Party and Fine Gael following the General Election also contained a proposal to reform the provision of water services. Specifically the programme commits Government “to achieve better quality water and environment by the introduction of a fair funding model to deliver clean and reliable water. We will first establish a new State owned water utility company to take over responsibility from the separate Local Authorities for Ireland’s water infrastructure and to drive new investment. The objective is to install water meters

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3 EU / IMF Programme of Support for Ireland, 16th December 2010
4 Ibid
5 Fine Gael Manifesto 2011, Let’s Get Ireland Working, p43
6 Ibid p.66
7 Labour Manifesto 2011, One Ireland Jobs, Reform and Fairness, p29
in every household in Ireland and move to a charging system that is based on use above a free allowance”.  

2.5 In July 2011 the Department of Environment, Heritage and Community contracted Price Waterhouse Coppers (PWC) to advise on the optimum corporate structure for a new water utility. In coming to a recommendation PWC carried out a SWOT analysis of the current system. The SWOT analysis recognised a number of strengths in the current system including the availability of a locally based supply system and a locally based staff with knowledge of the assets. They also point to value of having the support of a local authority structure in times when demand for water is high.

2.6 As part of their work PWC sought meetings with various groups including Congress. In advance of our meeting with PWC we were asked to consider expressing a preference for the development of a water utility in line with one of two distinct models. Congress was not given adequate time to evaluate which of the options it favoured. However following the meeting we wrote to the Department setting out principles that we believed should guide the work of PWC and inform their recommendations.

These principles can be summarised as follows:

- the new organisation should be established on a not for profit basis and should be 100% publicly owned;
- it should have a regional structure aligned to the river basin catchment districts;
- it should have adequate resources human and financial to enable it fulfil its statutory mandate;
- and its governance structures should reflect all of the stakeholder groups.

2.7 In the letter to the Department referred to in paragraph 2.6 above we also argued for a much deeper and more inclusive form of consultation in advance of any final decision by Government to reform the water sector.

2.8 On the 16th January 2012 the Minister for the Environment, Community and Local Government, Phil Hogan TD, announced that he intended to hold a short, time-limited public consultation on his proposals to reform water services by the establishment of a public water utility and on the future funding of water services. The public consultation process would seek the views of interested parties on proposals contained in a position paper.
3. The Department’s Position Paper on the Reform of the Water Sector in Ireland.

3.1 The Department’s position paper points to the importance of water and also to the acceleration in global demand. The paper notes that Ireland has a rich water resource and points to the aspiration of Government to exploit this resource in a sustainable way to support economic growth and competitiveness.

3.2 The paper describes the current arrangements for the delivery of water services and the role and responsibilities of the Local Authorities. The Department’s paper notes the level of investment by Government in water services in the last 10 years and points to the need for further investment driven by the desire to support enterprise, to respond to the climate change challenge, to meet demand form an increase in the population and the requirements of the EU Water Framework Directive.

3.3 Part two of the Department’s paper summaries the analysis carried out by PWC11 and details its recommendation. The analysis carried out by PWC included an analysis of how water services are managed in other jurisdictions.

3.4 The Department’s position paper notes that PWC recommends that Irish Water be established as a public utility in a regulated environment and would have the following functions:

- the abstraction, treatment and distribution of drinking water;
- conserving water supplies through maintaining and upgrading the infrastructure;
- the collection and treatment of waste water and the management and operation of combined sewer services;
- sludge disposal;
- customer billing and relationship management, including request for new connections;
- strategic planning for the sector, water resource management and localised catchment management focused on source protection;
- the roll out of the water metering programme;
- Sourcing private investment for investment in capital projects.

3.5 The Department’s position paper endorses the PWC recommendation and proposes that Irish Water be established on a phased basis beginning with the appointment of an interim board and project management office in 2012. The legislation establishing Irish water would be enacted in 2013 with the ownership of assets transferring from that date. It is

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11 Irish Water Phase 1 Report – PWC – 2nd November 2011
envisaged that Local Authorities would be agents of Irish Water for a period, with Irish Water taking over their operations on a phased basis from 2015 with the full transfer of operations completed by 2017.

3.6 It is envisaged that staff will transfer from the Local Authorities to Irish Water. It is acknowledged that detailed discussions will be required with Unions representing staff and that legal protections will be put in place for staff transferring.

3.7 The final part of the position paper proposes the introduction of domestic water charges and the installation of water meters in homes to measure consumption. It is proposed that the price for water will be determined by an independent economic regulator. The Department’s position points to the Programme for Government which proposes water charges based on usage above a free allowance.
4. Congress Observations

4.1 In the following sections we will critique the proposals made in parts two and three of the Departments position paper. They are as follows:

- in section 4.2 we critique the proposed establishment of Irish Water, its functions, its governance and the financing of the proposed new entity;
- in Section 4.3 we critique the proposed reforms as they relate to the staffing of the sector;
- in Section 4.4 we critique the proposal to introduce water metering and domestic water charges and;
- finally in Section 4.6 we critique the proposal to establish The Commission for Energy Regulation (CER) as the economic regulator for Irish Water.

4.2 Structure of Irish Water, Financing and Governance.

4.2.1 The Department’s position paper proposes, in short, to reform the water sector in Ireland by:

- establishing a new publically owned water utility company to be known as Irish Water;
- over time transferring ownership of the water distribution assets, responsibility for water services operations, and some staff from Local Authorities to Irish Water;
- pending the passing of legislation Irish Water will have an interim Board and legislation will be enacted to formally establish the Board of the new entity;
- it is argued that by virtue of this new structure and new revenue streams that Irish Water will be able to raise finance to fund the development of water services infrastructure;

4.2.2 The SWOT analysis carried out by PWC suggests that two of the main problems with the current organisation of water services are the number of organisation involved and the lack of co-ordination across these organisations. PWC further claim that because of this it is difficult to achieve economies of scale. It is for this reason that PWC have recommended the establishment of a new water utility company and the Department has supported its recommendation.

4.2.3 However both the PWC analysis and the Department’s position paper fail to recognise the considerable degree of co-ordination and co-operation that exists between Local Authorities in the current system. Every River Basin District in the country has produced a management plan to achieve good water quality status for all water bodies in the catchment area. Each River Basin District has a number of Local Authorities operating within...
its area. Therefore Local Authorities have established structures in place whereby they can collaborate to agree management plans to achieve the high standard of water quality required by the Water Framework Directive within specific timeframes.

4.2.4 Congress is also concerned that the analysis carried out by PWC and the Department’s Position Paper fails to take account of the loss of corporate knowledge and practical experience built up by Local Authorities over a very long period of time that will occur if responsibility for the delivery of water services and water services assets are transferred to the new entity. An obvious example of this is that each Local Authority is responsible for dealing with ground water. In the case of a flooding incident each Local Authority is responsible for diverting water away from homes and buildings. Similarly the benefits of having water supply and the fire service provided by same agency will be lost. Local Authorities are central to the fire services plans in fighting major fires. Their capacity to undertake this activity effectively would be severely impacted by such transfers. There are also significant boundary issues for example in relation to planning, agricultural, forestry, pollution control and taking in charge which are not addressed in the proposed utility model.

4.2.5 Local authorities have played a central role in the provision of essential services to citizens on a town, district, and county basis. The most important services provided to local populations include road building/maintenance, provision of clean drinking water, sewerage and storm water drainage, waste collection and disposal, fire services, social housing, and planning and development. Recently national and regional road building and maintenance has been largely taken over by the NRA, waste collection and disposal has been privatised, and social housing has been for many years provided by private contractors. If water services are to also be removed this will further undermine effective local government. The removal of water services provision from local authorities, and therefore from local political accountability, means that local government will be seriously weakened and diminished even further. For example, the decisions on the allocation of water resources by a national body will mean that existing local considerations on economic and social development may be ignored, reducing the power of local populations to influence the development of their own communities. The loss of water services also weakens the planning function as the ability of planners to easily collaborate with their colleagues in water services will be lost. These developments run contrary to progressive thinking which seeks to strengthen and extend local democracy. Local government needs
to be reformed and improved not undermined and marginalised.

4.2.6 For these reasons Congress is opposed to transferring responsibility for water production, the ownership of treatment and distribution assets, and operational responsibility for water services, to the proposed new utility company. It is not automatic that the transfer of water services en bloc to a single utility company will result in savings due to economies of scale. No evidence has been presented to demonstrate that the utility model would be more efficient or cost effective than the arrangements proposed by Congress in section five of this submission. Taking into account a history of chronic underinvestment in the water infrastructure by the State, Local Authorities continue to provide efficient and cost effective services.

4.2.7 The PWC analysis and the Department’s position paper argue that the capacity to raise finance for the day to day running of water services and for infrastructural development will be greatly enhanced by implementing the proposed new structure. The system currently in place sees day to day spending and capital investment on water services funded through grants to Local Authorities and through the application of water charges as determined by each Local Authority. This contention in the PWC analysis is only true to the extent that the new proposed income stream is reliable and guaranteed. We will comment on the issue of water charges later in this section of the paper and on the issue of funding for infrastructural development in Section five where we will outline our view of the functions that should be discharged by the new entity.

4.2.8 While Congress does see a role for a new entity it is different from that recommended by PWC and proposed by the Department. We see it playing a more strategic role and we will outline this role in Section Five of this paper. The position paper makes reference to the establishment of an interim Board and the enactment of legislation in which the Board would be formally established. Congress is of the view that Board should draw its membership from a cross section of society and should also have amongst its membership a worker representative. It has been recognised that having worker representation on the boards of companies adds considerable value. In most countries in the EU both public and private sector companies are required by law to provide that their governance structures include worker interests.

4.2.9 The other issue that is unclear from the position paper is the mandate that will be given to the new entity. This is an important consideration. In our view it should be established on a not for profit basis. This would not preclude the company from levying charges and would not preclude it from borrowing for infrastructural development.
Designating Irish Water as not for profit does not imply that it will be inefficient but means that it is more likely to strike a reasonable balance between public and commercial interests in the discharge of its functions.

4.3 Staffing and Employment.

4.3.1 The PWC Phase One Report\(^{12}\) notes that as of July 2011 the total number of staff working for Local Authorities was 30,967 full time equivalents (FTE’s). Of this number 4,049 (FTE’s) or approximately 13% worked directly in water services. The staff working directly in water services can be further broken down as follows; there are over 500 engineers, nearly 300 technicians, over 700 people employed as caretakers, over 300 plumbers, 800 general operatives and just over 200 hundred employed in water conservation projects.

4.3.2 The numbers employed in the wider public service continues to decline. This decline should be also viewed against what is a relatively small public service. In 2008 the OECD as part of its public management review programme undertook an examination of the Irish Public service. In its report\(^{13}\) it found that “the public sector workforce excluding commercial semi-sponsored bodies, is relatively low compared with other OECD countries, and significantly less than the level of public employment in Norway, Sweden, France, Finland and Belgium”

4.3.3 Since the publication of the OECD Report the numbers employed in the Local Authority sector have declined further yet PWC report expects that considerably fewer people will be employed in Irish Water once it is fully operational in 2018\(^{14}\). The PWC report also makes a number of suggestions as to how staff might be employed in Irish Water and how staff might be selected for posts in the new organisation.

4.3.4 As noted in point 4.3.3 above PWC expect that the number of staff working in the water sector to reduce significantly overtime. However they do qualify this expectation as follows, “as regards staff numbers, clearly the ultimate number will depend on many factors, not least of which will be the management’s strategy regarding outsourcing”\(^{15}\).

4.3.5 For Congress this is the privatisation of water services by another name. We do not believe that the development of an outsourcing strategy should be the starting point for determining the number of people to be employed. International experience would suggest that best practice is to keep water firmly in the public sector and for this reason we would expect that the legislation establishing Irish Water
To transfer staff out of the Local Authorities will directly impact on the effectiveness of local government in its ability to coordinate emergency response.

4.3.6 An important consideration that impacts on staff numbers but is largely ignored by the PWC analysis and the Department’s position paper is the important role that water services staff play in ensuring that the Local Authority discharges the totality of its functions. Water Services staff are called upon in emergency circumstances where local knowledge and experience is vital, i.e. storms, floods, fires etc. in these cases the integrated function of all services is critical. To transfer staff out of the Local Authorities and create a new and separate structure will directly impact on the effectiveness of local government in its ability to coordinate emergency response.

4.3.7 From the soundings we have taken to date with the members of unions in the Local Authorities there is little or no appetite for the type of transfers of staff envisaged in the Department’s Position Paper. We would also point out that the reference in the PWC report to the application of the TUPE\textsuperscript{16} regulations as the means by which transfers may be brought about is entirely inappropriate as the TUPE regulations, as transposed into Irish law do not provide that pensions are a condition of employment that would be transferred.

4.4 Domestic Water Charging.

4.4.1 There can be little doubt that moving to implement domestic water charges will be controversial and there will be considerable political opposition to them. The Commission on Taxation which reported in 2009 called for their introduction. In their final report\textsuperscript{17} they recommend that:

“water charges should be phased in over a five year period. These charges should be substantially based on use .....such charging will not just encourage water conservation but simultaneously generate the funds needed to ensure that water supply, water quality and Ireland’s consumption levels per capita are at international norms”

4.4.2 The water charging scheme proposed in the Department’s Position Paper will see the setting of a threshold and apparently only water consumed above this level will attract charges. However there seems to be a contradiction in policy around this issue. On the one hand the reform measures are promoted on the basis that consumers will be encouraged to save water and if through their efforts they manage to consume amounts below the threshold no charge will arise, while on the other hand the stated policy is to move to a full cost recovery model which would transfer all of the costs to consumers. If every or a majority of households consume water

\textsuperscript{16}Transfer of Undertakings Directive (77/187/EEC)

\textsuperscript{17}Report of The Commission on Taxation, 2009,p16
below the level of the free threshold how are the full costs to be recovered?
Clarity is required on how this apparent contradiction is to be reconciled.

4.4.3 There are other considerations that will influence public opinion. Some of these are listed below:

- If domestic water charges are introduced in isolation and not as part of a wider plan to simultaneously broaden the tax base in a progressive way it will not attract wide public support.
Congress has consistently argued for a range of new taxes to be introduced that target wealth and the wealthy in Irish society.

- A second consideration will be the level of the threshold after which water charges apply. The threshold could for example be set at the recommended levels established by the World Health Organisation. They recommend a minimum level of 100 litres per person a day to support human development. They put the absolute minimum level required at 25 to 30 litres a day for each person. They further point out that in certain circumstances for example lactating women the amount is much higher – they need at least 7.5 litres of drinking water a day. This threshold would represent a third of average use in Europe, where average water use ranges from 200-300 litres a day18.

- A third consideration will be the price of water. As the PWC report points out the operational expenditure on water in 2010 was €714 million19. There will also be a continued requirement for capital expenditure. The level of domestic charges will be dependent on number of factors, including the extent to which the state intends to continue to fund water services, the amount of the free allowance and the amount of income for other water charging currently in place.

- A fourth factor will be the quality and security of the water supply.

4.5 Economic Regulation of Irish Water

4.5.1 It is proposed that the Commission for Energy Regulation (CER) be appointed as the body that would set the price of water.

4.5.2 Congress would be of the view that assigning this role to the CER is a mistake. The CER regulates price in competitive environments and its main function is to encourage competition and reduce dominance. There is no proposal to have a range of suppliers in the water sector. Therefore the methods used by the CER to set price are not appropriate.

4.5.3 It is the view of Congress that this is one of the roles that should be assigned to Irish Water and we will elaborate on this in Section Five of this submission.

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5. Reforming the Irish Water Sector

5.1 As we stated in our introduction Congress is strongly of the view that water is a public commodity and the production, supply and control of water and waste water must be firmly rooted in the public sector.

5.2 We do believe however that there can be some positive results from a structured reform of the sector.

5.3 We would suggest that a new national authority with some strategic and operational functions in the water sector be established. We believe that the new national authority be established as a publically owned, not for profit organisation with the following functions:

5.3.1 The new national authority would be responsible for the development of the water distribution infrastructure. It would be required to undertake a regular review of the infrastructure and following the review would be required to develop a plan for works to be undertaken and how they should be financed. We would suggest that these reviews would be conducted every ten years. Local Authorities would be required by legislation to co-operate with the carrying out of the review and any subsequent proposed works;

5.3.2 We are opposed to moving water services assets and operational responsibility from Local Authorities. However we do believe that the new national authority should have oversight of their work. We would suggest that this be done by requiring Local Authorities to enter into service level agreements with the new authority;

5.3.3 The new entity in our view would be responsible for the collection of any charges that are levied on consumers. Congress does not believe that the full cost of water provision can be recovered from charges and the sector will need continued exchequer support. We would suggest that the distribution of exchequer grants for water provision to Local Authorities would be a responsibility of the new national authority. The payment of such grants to Local Authorities would be subject to them meeting operational requirements set out in service level agreements referred to above;

5.3.4 The new national authority would also be responsible for seeking finance for water infrastructural projects. We would suggest that organisations like the European Investment Bank and some pension funds might be willing to invest in such projects and that the new national authority might seek the advice of the National Treasury Management Agency in securing such funds. In the view of Congress the new national authority would be able to leverage the income stream from charges to raise bonds and borrowings.
5.3.5 We believe that the new national authority should be involved in the setting of the price for water. We would suggest that it would make an annual recommendation to Government on the appropriate price for water. However the final decision on price would be made as part of the annual budget process.

5.4 Congress believe the approach of having strategic oversight of the water sector performed by a new national authority working in conjunction with Local Authorities is the appropriate way to reform the water sector at this time.
6. Conclusion

6.1 The proposals set out in the Department’s position paper are ill advised and carry in our view enormous risk to the proper functioning and viability of the water sector in Ireland. While the position paper is clear in its intent it at the same time raises nearly as many questions as it answers.

6.2 Congress does see a role for a new national authority but we do not agree with the structure proposed in the position paper. We favour an entity that would have the functions as described in section five of this submission. We believe that it should be established on a not for profit basis and should directly carry out its designated functions.

6.3 Congress believes that moving the operation of water services away from Local Authorities risks not only the reliability of water services but also jeopardises the effective functioning of Local Authorities themselves. In developing its proposal has the Department given any consideration of the impact on Local Authorities and on their capacity to carry out their functions?

6.4 The position paper is not clear on the issue of funding of the sector. The introduction of domestic water charges is proposed and it is suggested this will enhance the capacity to raise borrowings for investment. The proposal is silent on the issue of the role of exchequer funding for the sector. Is it proposed that the full cost of providing water services will be borne by consumers and if so what do the Department envisage as the likely level of charge per household?

6.5 The Department’s position paper seems to accept the PWC analysis that there will be a much smaller number of people employed as a result of the proposed reform. If this is the case how will the reduction in numbers be brought about? Will there be, as PWC suggest, outsourcing of functions?

6.6 The proposed reform of the water services sector are in the view of Congress damaging to the sector, undermine the security of supply to consumers and are not appropriate. Congress recognises that reform of the sector is required. However we see a vital and continued role for Local Authorities in the sector with them retaining ownership of the water distribution assets and direct operational responsibility for the delivery of water services. A new state authority with a strategic and oversight role in the development of water services as described in section five of this submission is required.

6.7 Congress looks forward to continued dialogue with the Department of the Environment, Community and Local Government on the development of an appropriate reform of the Irish Water Services Sector.