

The Fiscal Impact of Abolishing Water Charges

The Taoiseach claims that abolishing water charges would mean a substantial increase in taxation. A Junior Minister raises the spectre of water rationing. Other Government spokespersons claim that public spending cuts would have to be introduced. Meanwhile Government Ministers are refusing to answer questions regarding the impact of water charges on public finances. Based on reports, Unite estimates that if water charges were removed, the Government would still reach its deficit target of 3 percent in 2015. There is no basis for these unsubstantiated Government claims.

Refusing to Answer Direct Questions

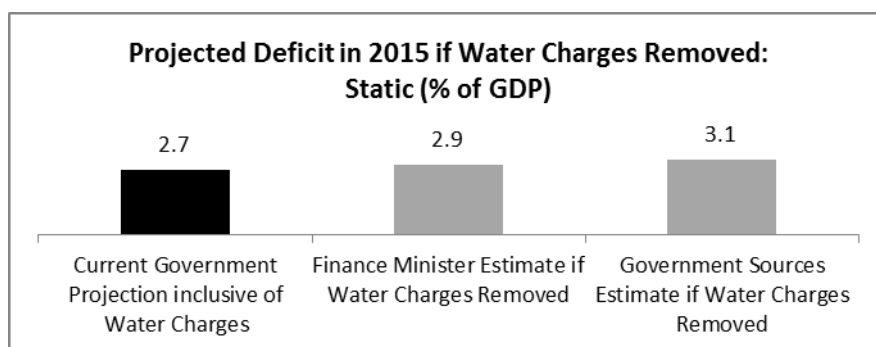
Deputy Micheal McGrath asked the Minister for Finance what the deficit would be if water charges were not introduced. Similarly, Deputy Angus O'Snideigh asked the Minister for Environment how much Irish Water would be spending in 2015. These are key questions in determining the fiscal impact of water charges. In both cases the Ministers did not reply.

There is a flurry of numbers in the public domain. Some expenditure will be on the balance sheet (that is, counted as general government expenditure); some will be off. With the Government refusing to divulge the full financial details, we have to rely on Ministerial comments and government sources reported in the media.

Estimating the Impact

Prior to Budget 2015, the Minister for Finance claimed abolition of water charges would cost €500 million. In another report, government sources claimed the additional cost would be €800 million. These costs do not arise from additional expenditure but from the inability to remove part of water services expenditure off-balance sheet.

The following assess the impact on the deficit on a *static* basis. This does not factor in the beneficial impact of removing water charges – which would increase GDP growth, tax revenue and limit the rise in the deficit. This is, therefore, an accountancy estimate.



If the Minister for Finance's estimate is correct, the Government would meet its fiscal target. If the Government sources estimate is correct, the target is exceeded – but only fractionally; by 0.1 percent of GDP.

Instead of answering questions regarding the budgetary impact of water charges, the Government is now threatening tax increases and water rationing.

When the full economic impact is factored in, the removal of water charges will still allow the Government to reach its deficit target of 3 percent of GDP.

However, the above estimate is on a 'static' basis. In reality, if water charges are removed, households will have approximately €300 million to spend in the economy. This will boost consumer spending and, so, GDP; tax revenue will rise with this spending and, with this, there will be a potential small rise in employment. When these are factored in:

- **Unite estimates that removing water charges will have an impact of less than 0.3 percent of GDP. This fractional increase means that the Government will still reach their deficit target of 3 percent.**

In subsequent years, the impact becomes minimal as the Government projects the deficit will be eliminated by 2018. Removing water charges will have only a fractional impact on these projections.

People Will Now Pay Twice for Water Services

It is claimed that introducing household water user charges will take expenditure on water services 'off-the-books'. This is not the case. Currently, households pay for water services once – through general taxation. Under the Government's proposal, households will pay twice: first through user charges and second, through general taxation. According to the Government, the following expenditures will still be paid by households through general taxation:

- €533 million through Department of Environment expenditure
- €48 million through Social Protection payments
- €40 million through the Water Tax Credit (a tax expenditure)
- An unstated amount of expenditure owing to the child-free water allowances

So while households will be paying for water services through charges, they will also be paying through general taxation. They will be paying twice.

Unite's Proposals

- 1) The Government withdraw the water charges as it will not undermine their deficit target of 3 percent.
- 2) The Government present a detailed and thorough report on the impact of water charges on the deficit to the Oireachtas and the public.
- 3) Government Ministers answer parliamentary questions in full regarding Irish Water expenditure and the impact of water charges on public finances.

The Government should return to the drawing board. There is nothing wrong in principle with putting some of the expenditure on water services 'off-the-books'. However, there are other ways to do this besides regressive user charges. For instance, in Germany substantial amounts of hospital expenditure are categorised as off-the-books even though they are funded through general taxation. The Government should examine other countries' experience of off-balance sheet financing. Most of all, the Government should finally engage in an open and honest debate and desist from making threats such as tax increases and water rationing.

Currently, people pay once for water services – through general taxation.

Under the Government's proposals, people will pay twice – through both charges and general taxation.

In addition to removing water charges, the Government should present a full impact report on public finances and answer questions in the Dail in an open and honest manner.

Published by UNITE the Union, Research Department

Jimmy Kelly, Regional Secretary: Jimmy.Kelly@unitetheunion.org
Michael Taft, Research Officer: Michael.Taft@unitetheunion.org
Alex Klemm, Press Office: Alex.Klemm@unitetheunion.org