

funding arrangements.

INTRODUCTION:

In September 2004, the then Minister, John Spellar, MP announced the basis on which household water charges would be introduced in Northern Ireland:

- all users should pay something towards the costs of the services that they receive and there should be a separate charge for water and sewerage services;
- each household will pay standing charges (these will be the same for every domestic property) which will recover around 35% of the costs of connecting domestic properties to the water mains and sewerage systems;
- households will also pay a variable charge based on an assessment of each property's capital value to be assessed by the Valuation and Lands Agency; and
- charges will be phased in over a three year period.

The Department has always recognised that the introduction of new water and sewerage charges could have a significant impact on low-income households in Northern Ireland. The response to the 2003 Consultation on the Options for the Reform of Water and Sewerage Services in Northern Ireland identified a broad consensus that those on low incomes must be protected from any excessive impact or hardship when charges are introduced. However in developing policy on assistance for low-income households and vulnerable groups, the Department had to

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take a range of factors into account. These included the existing provision for water and sewerage services within the social security system and the current arrangements available in England & Wales and Scotland, to assist such households. A description of the provisions in England & Wales and Scotland is included at Annex

1. consultation "Paying for Water Services", undertaken in 2004, the Scottish Executive plans to retain the single adult discount and to introduce a
2. The Department undertook the relevant research and compiled a Report -The Impact of the Introduction of Water and Sewerage Charges on Low-income Households and Vulnerable Groups and the Consideration of Special Protection Arrangements for Vulnerable Groups, in-house. As a result of this work advice was put to the then Minister, John Spellar in January 2004 and the Minister agreed that:
 - protection should be made available for low income and vulnerable households when household water charges are introduced;
 - this protection should take the form of a discount of 25% on the household water bill;
 - eligibility for the vulnerable groups discount should be determined on the basis of receipt of a specified range of passport benefits (Housing Benefit, Rate Rebate or Special Rate Relief;
 - the vulnerable groups discount should be funded by DEL;
 - consideration should be given to the establishment of a hardship scheme funded by a customer levy to assist householders facing exceptional circumstances; and
 - the policy procedures underpinning the operation and the funding of the vulnerable groups and hardship relief scheme should be reviewed at regular 3-year intervals.
3. Northern Ireland's Housing Benefit statistics identified a high proportion of single adult households, either those living alone or lone parents. This was equivalent to 83% of those in receipt of Housing Benefit and Rate Rebate.

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The choice of the 25% discount level was therefore linked to arrangements in Scotland where at the time, apart from the transitional protection arrangements (described in Annex 1), single adult households received a 25% discount on the charge they paid. It is interesting to note that following a consultation "Paying for Water Services", undertaken in 2004, the Scottish Executive plans to retain the single adult discount and to introduce a matching 25% discount, which will be available to all households that comprise two or more adults in receipt of Council Tax Benefit (equivalent to Housing Benefit or Rate Rebate in Northern Ireland).

4. At the time the Minister also agreed that discussions should commence with DFP and HMT on the arrangements for the funding and operation of the vulnerable groups scheme. It was in this context that, following discussions at official level, in the 2004/05 Settlement Letter the Chief Secretary, in specifying a number of conditions in respect of the Water Reform Programme, indicated that there should be **no DEL** subsidy for the vulnerable groups scheme. As a result when the Department published its Vulnerable Groups proposals as part of the Integrated Impact Assessment (IIA) Consultation it made clear that the cost of providing low income discounts should be passed on to other customers.

Response to the IIA Consultation in respect of the Vulnerable Groups Proposals.

5. The Department is currently preparing a response to the consultation on the Integrated Impact Assessment (IIA) on the Reform of Water and Sewerage Services in Northern Ireland, which closed on 4 March 2005 [a submission and draft Report addressing the relevant policy issues will be provided before the end of June]. The IIA set out the Department's proposals for the provision of assistance for low-income households and vulnerable groups. In the response to the consultation on the IIA there was widespread criticism of the

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proposals. The 25% discount was considered inadequate to alleviate hardship, the low-level of benefit uptake was identified as a significant factor, the use of Housing Benefit and Rate Rebate as passport benefits was criticised. Many respondents expressed the view that Government should bear the cost of discounts on a social policy basis, rather than have the costs passed on to other customers. Some respondents compared the proposed level of discounts to the level of assistance available in respect of rates, where many Housing Benefit claimants are entitled to a full rebate and do not therefore pay rates.

6. The General Consumer Council (NI), the future consumer representative body for water and sewerage services, has urged the Department to give priority to the avoidance of creating water poverty. The term water poverty is often used to describe those households spending more than 3% of disposable income on water and sewerage bills. Water affordability is one of the UK indicators of sustainable development and DEFRA monitors the percentage of households spending more than 3% of disposable income (before housing costs) on water and sewerage bills. In a recent report published by DEFRA the figures for England & Wales show that on average, the percentage of households paying more than 3% of disposable income for water is estimated to rise from 8% in 2004-05 to 11% in 2009-10. However the report goes on to say that for lower income households the figure will rise from 29% to 37%.
7. Age Concern, Help the Aged and other Voluntary Sector Organisations have highlighted the impact that the introduction of water charges is likely to have on pension households and particularly those living in higher value properties. Their response makes reference to more than 50% of pensioners in Northern Ireland living in fuel poverty and suggests that a similar statistic would apply to water poverty.

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8. Taking account of the criticisms and concerns emanating from the consultation the Department has considered how the Affordability Scheme might be adapted to provide further assistance for low income households and in particular those occupying high value property, in order to gain wider acceptance of the reform proposals. Mindful of the sustainable development indicator in relation to water affordability we have looked at the extent of low-income households, which would be required to spend more than 3 per cent of income on water charges. As a result the Department is suggesting that it may prove more acceptable if the proposed 25% discount were to be replaced with a 'Water Affordability Tariff' for such households. Initially the tariff could be set at around £150 representing a contribution of just under £3 per week from such households when charges are fully phased in.
9. In determining the level of contribution the Department took account of the fact that although the tax credit and benefit systems do not provide targeted support for water charges these costs are recognised in calculating benefit rates on a national basis, given that all other regions already pay for water and sewerage services. That is one of the reasons why the Department made it clear that there should be no exemptions from charges in Northern Ireland. The Family Resources Survey Northern Ireland 2003-04 confirms that Benefit receipt is higher in Northern Ireland (64% of benefit units) than the UK average (59%).
10. By way of example Pension Credit provides financial help for pensioners with weekly income below a level set by Parliament each year, from April 2005 it guarantees everyone aged 60 and over an income of at least £109.45 for a single person and £167.95 for couples. By setting the Affordability Tariff at £150 for water and sewerage services the Department would therefore ensure that pension households in receipt of pension credit and entitled to a passport benefit would spend less than 3% of their income on water charges regardless of the capital value of their property.

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11. As the Department plans to phase the introduction of water and sewerage services over a three-year period, the 'Affordability Tariff' should also be phased in on a similar basis. Thereafter the tariff should increase to take account of levels of inflation and other relevant factors.
12. Despite the criticism of the use of Housing Benefit, Rate Rebate as passport benefits, the Department considers it appropriate to maintain the link with these benefits as a means of determining eligibility for the scheme. This ensures that the water company can rely on the assessments undertaken by the Social Security Agency (SSA), the Northern Ireland Housing Executive (NIHE) and the Rate Collection Agency (RCA), rather than facing the requirement to undertake any form of financial assessment or means testing exercise. The Department recognises that there are difficulties in the levels of benefit take-up, particularly in pension households and we therefore plan to work closely with the Social Security Agency and the other Agencies to increase awareness of entitlement to the passport benefits of Housing Benefit, Rate Rebate and the new Rate Relief. This will be an important element of the communications process ahead of the introduction of charges. The Department will also take the opportunity to link with the Communications Strategy which is planned to accompany the reform of the Rating System.
13. Making use of Housing Benefit and Rate Rebate data the Department estimates that 175,000 households will be eligible for assistance provided that they are in receipt of water and sewerage services. NIHE data identifies approximately 125,000 households in the rented sector while RCA data indicates around 50,000 households in the owner occupied sector. Policy development work on the new Special Rate Relief Scheme, by the Department of Finance and Personnel (DFP), is ongoing, however the consultants involved estimate that there is potential for around 8,500

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households to come within the scope of the new Scheme. The new rate relief scheme is being developed by DFP as part of the Rating Reform programme. It will provide assistance to those on low incomes, who are just above the housing benefit threshold. It will take account of individual circumstances and needs, and more effectively assist those least able to pay than blanket reliefs that take no account of ability to pay. It is also intended that a future NI Executive could target this new relief at particular groups, for example pension households. The scheme will be separate from, and additional to, the existing housing benefit scheme and in relation to rate relief, will be funded by local taxpayers. In recognition of the identified policy objectives for this new scheme, DRD felt it was appropriate to include the new rate relief scheme with the other passport benefits when determining eligibility for a reduction of water charges. At this stage, for modelling purposes the charging team has estimated 10,000 households in this category and taken into account that most recipients are likely to be owner-occupiers, and mainly pension households occupying higher value properties. Therefore in total the Department's proposals would assist **185,000 households**.

14. The new proposals would ensure that any household, in receipt of a passport benefit, with a water bill in excess of £150, would be entitled to a reduction.
16. However, there would no longer be a reduction for households with a water bill of less than £150, this would mean that households in receipt of passport benefits occupying property valued at less than £45,000 would receive either less discount or no discount under this scheme. There are no precise figures available at present to link the capital value of properties with those households in receipt of either Housing Benefit or Rate Rebate, however based on current modelling work it is estimated that around 700 households would not receive discount and approximately 13,000 households in properties valued between £25,000 and £45,000 would receive less discount under the revised proposals than would have been the case under the original 25% discount proposal. The modelling work indicates that the remaining

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161,000 households in receipt of Housing Benefit, Rate Rebate and Special Rate Relief would receive a greater level of discount under this proposal.

15. Under the new proposals all households entitled to a passport benefit occupying property with a valuation of more than £40,000, resulting in a bill in excess of £200 would gain from the new 'Affordability Tariff'. The following table compares the impact of the original 25% discount and the new proposed Affordability Tariff for a single pensioner household against a range of property capital values.

Table 1

Comparison of Proposals Based on a single person household on Pension Credit in receipt of Passport Benefit Assumed Income £109.45 x 52 = £5691.40						
Property Value £	Estimated W&S Bill 04/05 prices £	25% discount applied	% income	Affordability Tariff £	% income	Difference +/-
25,000	155	116	2%	150	2.6%	+0.6%
45,000	200	150	2.6%	150	2.6%	-
80,000	270	203	3.6%	150	2.6%	-1.0%
110,000	330	248	4.4%	150	2.6%	-1.8%
190,000	490	368	6.5%	150	2.6%	-3.9%
350,000	750	563	9.9%	150	2.6%	-7.3%

Impact of the new proposals in addressing Affordability issues

16. The main objective of the revised proposal is to reduce the number of householders in receipt of passport benefits who would otherwise be spending more than 3% of their income on water and sewerage charges. By adopting this approach the Department could ensure that a single pensioner household living on the minimum Pension Credit (£109.45), and therefore entitled to Housing Benefit or Rate Rebate, will not be required to spend more than 3% of their income on water and sewerage charges, regardless of the capital value of their property. The IIA identified that with the use of capital values there is a negative impact on the elderly where house prices are highest as there is a disproportionate representation of over 65 year olds who make up 14% of the population compared to 13% in Northern Ireland as a

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whole. The 2001 census data identifies 121,255 pension households, including 80,486 single pension households. Our analysis of Housing Benefit and Rate Rebate information suggests that the Department's proposals will assist 60,634 pension households and when the estimate for Special Rate Relief of 8,500 pension households is also taken into account, we would assist approximately 57% of pension households through the Scheme.

17. The Scheme would also benefit non-pension households in receipt of passport benefits by insuring that they would not be required to spend more than 3% of their disposable income on water charges, where weekly income is £100.

Table 2 Comparison of weekly disposable incomes (after housing costs) in pensioner and non-pensioner households in N. Ireland

Weekly disposable income (£)	Pensioner households		Non-pensioner households	
	% of households	Cumulative % of households	% of households	Cumulative % of households
Under 100	3.40	3.40	7.35	7.35
100-200	25.02	28.42	19.96	27.32
200-300	33.63	62.04	24.18	51.50
300-400	21.16	83.20	22.50	74.00
400-500	9.28	92.48	12.27	86.27
500-600	3.41	95.89	6.36	92.63
600-700	2.16	98.06	2.39	95.02
700+	1.94	100.00	4.98	100.00

Source: Family Resource Survey 2002/03

[DN Tony to update with 2003/04 data if possible can we use "before housing costs" to reflect DEFRA comparisons]

18. The introduction of the "Affordability Tariff" will therefore assist DRD's objective in ensuring that water and sewerage charges are fair and affordable whilst ensuring that all households make a contribution to the costs of providing the services. In respect of pension households the potential impact of the scheme would appear to compare favourably with the reference to

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50% of pension households living in fuel poverty as indicated by the consultation responses from the age sector groups. It is anticipated that the implementation of the revised scheme would have a significant impact on gaining acceptability for the new charges and alleviating debt problems for the new company.

19. However, the issue of those low-income households not in receipt of the passport benefits remains to be addressed. The Department is already committed to working with the relevant Agencies to improve benefit uptake however, this is not the only answer and the consideration of proposals for the introduction of metered charges must be considered in this context. In the case of pension households, and in particular those occupying high capital value properties, with low water consumption, it may be possible to alleviate the problem to some extent by targeting the early introduction of metered charges to this group of consumers. Detailed proposals on metering are currently being developed and a submission on this issue will be provided before the middle of June.

Availability of Data

20. In order to complete the full range of assessments it would be necessary to analyse data in relation to both household income and property capital value. The decision to base charges on capital values is linked to the reform of the Rating system. However, as the review of the Rating system is proceeding in parallel with the Water Reform Project it has not yet been possible to develop a database containing both elements of information. The NI Statistics and Research Agency (NISRA) is currently undertaking work to assess the impacts of the introduction of capital values for rating purposes and will shortly begin work on the development of a model for estimating household income at small area level. It is hoped that the outputs from this work will inform the further development of the Department's proposals in relation to water

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charges in general and vulnerable groups in particular. However it is likely to be the Autumn before robust data becomes available

Funding the Scheme

21. Again mindful of the criticism in respect of the costs of the original proposals being borne by other customers the Department is planning to re-open negotiations with DFP [and HM Treasury] in order to secure NI DEL funding to cover the costs of the Scheme. The Department estimates that it will cost in the region of £21 million based on current modelling work, when charges are fully phased in. However as there is no data available as yet to link the capital value of property with households in receipt of passport benefits this figure has been calculated using a number of assumptions to estimate the spread of those households in receipt of passport benefits across the range of property capital values. Until more detailed capital value data and its correlation with passport benefit households becomes available this estimate will be kept under review. The DEL subsidy should be considered against the total household contribution to water and sewerage services of £? million **[DN Andrew please insert figure]** when charges are fully phased in.
22. The proposed Affordability Tariff is likely to be a major factor in securing public acceptance of the introduction of water and sewerage charges. However if we fail to secure DEL funding and the costs of the new proposals were to be borne by other customers this is certain to attract more severe adverse criticism. The impact on customers would result in a [?]% increase in household bills **[DN Andrew can we agree a figure]**, it was estimated that the cost of the 25% discount would add 5- 6% to household bills.

Recommendation

23. That you: