

CHAPTER 2

BASIS FOR A WATER CHARGE

This chapter seeks your views on how water and sewerage charges should be calculated in the future.

- 2.1 The issue of water funding was raised in the Review of Rating Policy consultation exercise launched by the Executive on 7 May 2002. The consultation paper did not consider whether a charge was needed but rather what form a charge should take. Through the course of the consultation opinion was consistent on two principles that emerged. Firstly, that those who use the most water should pay the most, and secondly that those who can least afford it should pay less. The issue of a uniform charge, regardless of ability to pay was universally rejected.

What is the timetable for change?

- 2.2 The intention in Northern Ireland is that Water Service should become self-financing before the end of the decade. However it is unlikely that domestic water charges will be introduced before April 2006. It will take time to consult fully on the options for charging and to complete full assessments of the implications of the policy for:

- equality impact;
- regulatory impact;
- New Targeting Social Need obligations;
- Health Impact assessment; and

- Rural Proofing obligations.

2.3 More details of the way these issues will be assessed are set out in Chapter 6.

2.4 Following consultation it will also take time to pass the necessary legislation and develop the necessary billing arrangements. Any new systems may take some time to introduce and may need to be phased in. So it is likely that a significant subsidy from public expenditure may be needed for some years yet. More details of the possible time table for introducing Water Charges is set out in Annex [4].

Basis for calculating water charges in GB.

2.5 Domestic water and sewerage charges in England and Wales are based on two elements, a fixed charge and a variable amount determined on the basis of the old rateable values, or on the level of water consumption as measured through water meters. In Scotland, the household water charge has a fixed charge element and a variable amount determined on the basis of the Council Tax banding for the property. Details of the GB average charges for 2002/03 can be found at Annex 1 and Annex 2.

2.6 Non-domestic charges for metered water customers comprise a standing charge element and volumetric charge element. The standing charge is designed to recover the costs incurred in providing, maintaining and billing a metered water supply. It currently ranges from £46 to £1,502 per annum. The volumetric charge is designed to recover all the other costs of treating, storing and delivering water. Water Service does not charge non-domestic customers for the disposal of sewerage or effluent if rates are paid on the property. Where the property is exempt from rates then trade effluent charges are applied in accordance with the Mogden formula. This formula which is used through the industry in the UK calculates the charge on a volumetric basis taking into account the strength and density of the effluent discharges relative to the average strength and density of sewerage treated.

How might water charges we calculated in Northern Ireland and who will pay?

2.7 The options that could be used as the basis for Northern Ireland's domestic water and sewerage charges are:

- A uniform standard charge for all households
- Property based charges
- A fixed charge combined with a variable component

OPTION 1 - A standard charge applied uniformly to all households

2.8 This option assumes that all households would pay the same level of water and sewerage charge. This would be relatively straightforward to calculate and administer, but it raises issues of equality as it does not take account of ability to pay. It also does not produce any incentive for households to reduce their consumption of water. A standard charge would also have a regressive effect in that lower income households would have to pay a higher proportion of their income than those on higher incomes. This option was rejected by those who responded to the Rating Policy Review consultation in 2002.

2.9 This option would reflect the fact that, since fixed costs represent some [% **DN: Water Service, please specify**] of the total costs of providing the services, all households impose broadly similar costs on the system.

OPTION 2 - Property based

2.10 Following consultation on the Review of Rating Policy, Ministers have decided that a rating system based on the capital value of properties would be a fairer way of raising local revenue than the present system which is based on the rental values of properties. A water charge calculated on the same basis as the reformed rating system would appear to be the easiest to administer

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because collection could be undertaken by the Rating Collection Agency on behalf of the Water Service, and perhaps the most equitable approach. This approach is similar to that employed in Great Britain, where the Rateable value or Council Tax banding of a property is used to determine the level of (non-metered) domestic water and sewerage charge.

- 2.11 The capital value of a property may provide a better measure of ability to pay than a flat charge. However, since [%] of the costs of services are fixed, this would involve those in higher value properties paying more than the costs they impose on the system. An Equality Impact Assessment is being prepared as part of the Review of Rating Policy to analyse this assumption further, and to determine the impact of the move to capital values on different households.

OPTION 3 - A combination of fixed element and variable component

- 2.12 The largest proportion of Water Service's costs is fixed, due to the capital intensive nature of the water industry **[DN:Water Service please specify]**. The variable costs incurred in providing water and sewerage services to a property are governed by the volume of water consumed and waste discharged, and the location of the property in relation to treatment works and networks.
- 2.13 A water and sewerage charge may comprise 2 possible variable components: a measure of consumption (metering); or, a proxy of ability to pay (property value). Water charges in GB are raised mainly on this basis, though with metering as an option that can be sought by any householder and as standard in new properties. In Scotland, the variable component is based on the Council Tax, while in England, the old rental values, which date back before the introduction of the Community Charge (Poll Tax) in the 1980s, are used for this purpose.
- 2.14 Unless universal metering is introduced for domestic households, levels of consumption cannot be measured for all households. However, metering

introduces a number of equality and NTSN concerns, which are discussed below.

Question

What is the most appropriate and effective basis for the determination of domestic water and sewerage charges in Northern Ireland?

Why have you ruled out the metering of domestic supplies?

2.15 The metering of water supplies is clearly consistent with the thrust of the European Water Framework Directive, as it would encourage the efficient and sustainable use of water supplies. However, metering would involve a very substantial upfront capital cost in relation to the supply and installation of meters. It is estimated that the introduction of domestic metering would cost £200 per property. This cost, which would amount to an estimated £130 million in total if applied universally to all households, would have to be offset against public expenditure, or recovered through the charges levied on customers.

2.16 Water meters are installed in all new properties in England and Wales, but customers in existing properties can also choose to have a meter installed. Optional metering is more attractive to customers living in higher value properties with low occupancy levels, as the cost of their metered water consumption is usually less than the level of charge calculated on the basis of the property value. However the lower level of charges must be offset by the water company through profits or by charging other customers more. This raises further equality and equity issues, particularly for lower income households.

2.17 Water companies in England and Wales cannot disconnect customers' water supplies for non-payment or debt on public health grounds. However a tenant

who purchases or rents a property with a water meter installed by the previous owner/occupier cannot have the meter removed.

- 2.18 Metering of domestic water supplies may give rise to a potential inequitable impact on low income, larger households, and on customers who require large volumes of water on health grounds. This is exacerbated where metering of domestic supplies is offered as an option, as this option is more attractive to more affluent, smaller households, particularly if the water charge is calculated on the basis of property value, as these customers may have lower water consumption but a higher property value.
- 2.19 The inequitable impact of metering on vulnerable groups in England is recognised through application of a vulnerable group tariff (see paragraph 2.26).

Question

Metering of domestic water supplies was specifically ruled out by the Executive as an option for water charging in the Rating Policy Review. Is there any need to revisit this issue?

How will water charges be collected?

- 2.20 The cost of billing will fall to Water Service and will be passed on to customers through the Water Charge. Water Service will therefore want to have the maximum flexibility to keep this cost to a minimum therefore views are not being sought on the mechanisms to be used to administer the water charging regime, as this will be a business decision for the water and sewerage utility. The most appropriate system will be influenced to a large degree by the basis selected for the determination of the household charge.
- 2.21 Should a decision be taken to base domestic water and sewerage charges on the capital value of a property, the domestic water and sewerage charge could be calculated, billed and collected by the Rates Collection Agency. This

offers advantages in terms of set up costs, and ease and cost effectiveness of administration.

2.22 Domestic water and sewerage charges could be calculated, billed and collected by the water and sewerage utility. Water Service currently operates its own billing arrangements for non-domestic customers. However this may require the design and acquisition of new billing systems, and additional administration costs.

2.23 Alternatively, the domestic billing and revenue collection function could be contracted out on a commercial basis. The effectiveness of this option will largely be determined by cost.

How will you protect those on low incomes and safeguard vulnerable groups?

2.24 The design of a charging regime will consider how best to protect vulnerable groups from any excessive impact or hardship caused by the new self-financing arrangements. The Housing Benefit system would not provide a specific rebate for water and sewerage costs. So without other assistance the new charges would be payable by all households who receive services, including low-income households. However there is no reason in principle why the new charging regime could not be designed to give protection to certain categories of consumer. The need for protection will obviously vary depending on the basis used for charges. For instance, if the charge were based on service use, special protections would be required to ensure that customers who require large volumes of water, for instance, due to a health condition, are not required to bear an excessive cost burden.

2.25 Careful consideration will need to be given to those on low incomes. Housing Benefit is payable only in relation to the rent and rate costs of a property, and cannot be used to offset water charges. The legislation governing domestic water and sewerage charges could include provision for the offer of discounts or special payment arrangements.

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2.26 In England and Wales vulnerable groups are protected by the Water Industry (Charges/Vulnerable Groups) Regulations 1999. These restrict bills for large families on low income and for customers suffering from certain medical conditions, again with low income. Bills for both groups are capped at the average measured charges for their respective water and sewerage undertakers. However, at the end of 2000/01 only 1724 consumers were benefiting from the tariffs.

2.27 The requirements of the Vulnerable Group regulations are managed by the water companies. The Treasury does not make any provision to support the vulnerable in Great Britain and would almost certainly not make a special case for Northern Ireland. This leaves a number of options:

- (i) all households to be charged on the same basis, with no special protection for the vulnerable or low paid;
- (ii) discounts or rebates could be given to those on low pay with the shortfall in revenue being made up through higher charges for those who are better off; or
- (iii) subsidies to be vulnerable could be paid from the Northern Ireland DEL, though this would be at the expense of other programmes and would almost inevitably result in cuts in services such as health or education.

Question

Which categories of customers are most likely to be impacted by the introduction of domestic water and sewerage charges?

How can the needs and interests of these groups be protected?