



**Research Paper 11/08**

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## **WATER REFORM AND THE AFFORDABILITY OF THE AFFORDABILITY TARIFF**

**Research and Library Service**

This paper was prepared for the Regional Development Committee as a commentary on the 'Affordability' section of the Independent Water Review Panel's Strand Two Report on water reform in Northern Ireland. It makes two main points as follows:

- Affordability tariffs are not affordable (a point already well made by others, but seemingly ignored).
- 'Water poverty' is of no relevance to the debate on affordability tariffs.

The paper recommends that the Committee ignores the work on 'water poverty' and focuses more on the issues of real poverty and affordability.

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## SUMMARY OF KEY POINTS

### Summary

This paper was prepared for the Regional Development Committee as a commentary on the 'Affordability' section of the Independent Water Review Panel's Strand Two Report on water reform in Northern Ireland. It makes two main points as follows:

- Affordability tariffs are not affordable (a point already well made by others, but seemingly ignored).
- 'Water poverty' is of no relevance to the debate on affordability tariffs.

#### 1) *Why are affordability tariffs not affordable?*

- 350,000 people in Northern Ireland are living in poverty.
- 44,000 children are living in severe poverty.
- Around 20,000 households have an income of less than £100 per week.
- Benefits are determined for the UK as a whole, but the cost of living in NI is higher than all other UK regions, except London and the South-East.
- The affordability tariff for an average house (£3.40 per week) is the equivalent of the amount that the average pensioner spends on food each day.
- The affordability tariff for an average house for a year (£177.92) is the equivalent of 3 weeks' income support or jobseeker's allowance for a single person, or 6 weeks' child benefit for a lone parent with two children.
- The affordability tariff is set with reference to the pension credit rate for a single person (the highest affordability tariff is set at 3% of this amount), which implies that people aged over 60 in Northern Ireland only require 97% of the government's guaranteed minimum level of income (despite the cost of living being 5% higher than in Wales and the North-East of England, and 3% higher than in Scotland).
- The use of pension credit as a reference point ignores the low take-up rate for this particular benefit (DSD estimates that the number who are eligible, but do not take up this benefit, lies somewhere between 17,000 and 86,000).

#### 2) *Why is 'water poverty' not relevant?*

- Water poverty does not exist in Northern Ireland.
- The Independent Water Review Panel (IWRP) re-invented definition is based on the average amount spent on water by the poorest 30% of households in England and Wales in 1999/2000.
- Eligibility for the affordability tariff is not based on 'water poverty'.
- The Consumer Council claims that 220,000 households will be eligible for the affordability tariff (i.e. about 80,000 more than the number in poverty), yet only about 70,000 will be lifted out of 'water poverty'.
- After the introduction of affordability tariffs, the IWRP estimates that over 70,000 households will remain in 'water poverty'.
- 'Water poverty' distracts from the key issues of poverty and affordability.

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## 1. INTRODUCTION

“Annual income twenty pounds, annual expenditure nineteen nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery.”

[Mr. Micawber's advice to young Copperfield in Charles Dickens' *David Copperfield*]

As Mr Micawber points out in Dickens' novel, it only takes a relatively small increase in expenditure (a quarter of a percent of income in this example) to bring about a shift from happiness to misery.

For the 20,000 or so households in Northern Ireland with an income of less than £100 per week<sup>1</sup>, even the lowest proposed water affordability tariff of around £1.70 per week could make that difference.

For the 44,000 children in severe poverty<sup>2</sup>, it could make that difference.

For many of the 350,000 people in poverty in Northern Ireland, it could make the difference between poverty and severe poverty.

As pointed out by the Northern Ireland Council for Voluntary Action (NICVA), in response to earlier consultation, half of all pensioners already find it hard to make ends meet, having to choose between bread and heat.<sup>3</sup> These proposed charges will force them into an even worse situation.

This fundamental concern on the issue of affordability has already been expressed by the Assembly. The response, provided by the Independent Water Review Panel (IWRP) in the Strand Two Report, was along the following lines:

'The time has come,' the Walrus said,  
'To talk of many things:  
Of shoes--and ships--and sealing wax--  
Of cabbages--and kings--  
And why the sea is boiling hot--  
And whether pigs have wings.'

[The walrus distracts the oysters before eating them in Lewis Carroll's *The Walrus and the Carpenter*]

The actual response was as follows:

<sup>1</sup> DSD Family Resources Survey 2005/06 (20,000 estimate based on 3% of households) - [http://www.dsdni.gov.uk/index/stats\\_and\\_research/family\\_resources\\_survey.htm](http://www.dsdni.gov.uk/index/stats_and_research/family_resources_survey.htm)

<sup>2</sup> OFMDFM Committee Report on Child Poverty, 19 December 2007 - [http://www.niassembly.gov.uk/centre/2007mandate/reports/Report07\\_07\\_08r.htm](http://www.niassembly.gov.uk/centre/2007mandate/reports/Report07_07_08r.htm)

<sup>3</sup> NICVA response to DRD's integrated Impact Assessment of its proposals on water reform - [http://www.nicva.org/uploads/docs/p\\_WaterReformEQIA\\_050405.pdf](http://www.nicva.org/uploads/docs/p_WaterReformEQIA_050405.pdf)

“We repeated our analysis on the assumption that those who qualified for the Affordability Tariff would pay nothing. This confirmed our original finding that the tariff at its current level would take these households out of water poverty: but we also discovered that it could cost an extra £23m to take fewer than 300 additional households out of water poverty. We do not believe that this would represent good value for money”.<sup>4</sup>

They also concluded that “a policy of free water for all pensioners could not be justified”, but did not comment on the possibility of free water for pensioners living in poverty. All of their analysis and modelling appears to revolve around the concept of ‘water poverty’.

## 2. WATER POVERTY

So what exactly is ‘water poverty’? According to the international organisations involved in the campaign to end water poverty, it is a global crisis involving a lack of access to clean water and basic sanitation. The End Water Poverty campaign is demanding that governments provide sanitation and water for the world’s poorest people.<sup>5</sup> Academics at Keele University have actually produced a ‘Water Poverty Index’ to enable an international comparison of water scarcity.<sup>6</sup> Not surprisingly, countries like Malawi and Ethiopia are at the opposite end of the scale from Ireland and the United Kingdom, where water poverty doesn’t appear to be a problem.

The Department tells us that ‘water poverty’ is something you suffer from if you spend more than 3% of your net household income on water (similar to ‘fuel poverty’, which is what you suffer from when you spend more than 10% of your income on domestic fuel). This re-invented definition, however, only serves to distract from the real issue of poverty in Northern Ireland.

The re-invented ‘water poverty’ concept was introduced to the UK in a paper published by the Public Utilities Access Forum<sup>7</sup> in 2002.<sup>8</sup> This paper attempted to identify those households in England and Wales that were spending an excessive proportion of their income on water charges, following the spectacular failure of the Government’s Vulnerable Groups Regulations – a scheme which came into force in January 2000, with the aim of making water charges affordable for certain vulnerable groups.<sup>9</sup> Thousands of people in England and Wales consequently incurred debts arising from water charges. With the ultimate aim of identifying those who most

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<sup>4</sup> IWPB Strand Two Report, Chapter 7 on ‘Affordability’.

<sup>5</sup> See [www.waterpoverty.org](http://www.waterpoverty.org)

<sup>6</sup> Lawrence, P., Meigh, J. & Sullivan, C. ‘The Water Poverty Index: an International Comparison’ Keele Economics Research Papers 2002/19, October 2002.

<sup>7</sup> The Public Utilities Access Forum is an informal association of organisations which helps to develop policy on the regulation of public utilities providing electricity, gas, communications and water services in England and Wales.

<sup>8</sup> Fitch, M. & Price, H. ‘Water Poverty in England and Wales’, Public Utilities Access Forum, July 2002 - [http://shop.cieh.org/library/Knowledge/Environmental\\_protection/waterpoverty.pdf](http://shop.cieh.org/library/Knowledge/Environmental_protection/waterpoverty.pdf)

<sup>9</sup> Ibid., pp. 24-30. This scheme was supposed to cap water charges for large poor households and those with certain medical conditions, but it had a take-up rate of less than 1%.

needed help, the researchers set out to define the problem in similar terms to those previously applied to fuel poverty.

The water poverty 3% threshold was arrived at by taking the average percentage of income spent on water by low income households (the bottom 30%). The researchers applied the same rationale as had been previously applied in the calculation of the 10% fuel poverty threshold. They thereby concluded that a household is in 'water poverty' if it spends a higher percentage of its income on water than the average spent by the poorest (bottom 30%) households, and this turned out to be 3% in England and Wales at that time.<sup>10</sup>

In December 2005, the former Minister for Regional Development, Shaun Woodward, announced: "We have listened carefully to those people who said we must avoid 'water poverty'. We recognise this could be a real problem which is why we are introducing the Affordability Tariff."<sup>11</sup>

### **3. THE RELATIONSHIP BETWEEN WATER POVERTY AND THE AFFORDABILITY TARIFF**

Perhaps we can explain the relationship (or lack of it) between water poverty and affordability tariffs with an illustration. Kathleen lives alone in an average semi-detached house (capital value over £100,000), with a basic state pension (£87.30) as her only income<sup>12</sup>. Will she qualify for an affordability tariff? Provided she does not have capital or savings worth more than £50,000, she will be entitled to an affordability tariff and will only have to pay about £3.40 per week - but can she afford it? Either way, she will remain in 'water poverty' (as she will still be spending more than 3% of her income on water charges), so in this case there is no relationship between 'water poverty' and the affordability tariff.

Another example – Mary, a lone parent with two children and a net household income of £200 per week, is, by the Government's definition, living in poverty. Living in an average terraced house (capital value between £70,000 and £100,000), her water bill will most likely be less than 3% of her income, whether she receives an affordability tariff or not. Fortunately for her, eligibility is based on housing benefit/rate relief and not 'water poverty', so she will stand a good chance of being eligible for an affordability tariff of around £2.60 per week – but with existing bills (and possibly debts), can she afford it? Once again, whether she can afford it or not, there appears to be no direct relationship between 'water poverty' and the affordability tariff.

A few other interesting observations cast doubt on the relevance of the 'water poverty' concept in relation to the debate on water affordability:

- The Consumer Council claims that 220,000 households will be eligible for the affordability tariff<sup>13</sup> (i.e. about 80,000 more than the number in poverty), yet only about 70,000 will be lifted out of 'water poverty'.

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<sup>10</sup> The latest data available to them related to 1999/2000.

<sup>11</sup> DRD News Release - <http://www.drdni.gov.uk/newsDetails.htm?newsRef=187>

<sup>12</sup> She could be one of the thousands who are entitled to Pension Credit but do not take it up.

<sup>13</sup> Information provided to Regional Development Committee by the Consumer Council on 23 January 2008.

- After the introduction of affordability tariffs, the IWRP estimates that over 70,000 households will remain in 'water poverty'.<sup>14</sup>

#### 4. THE AFFORDABILITY OF THE AFFORDABILITY TARIFF

The Northern Ireland Anti-Poverty Network has already argued that there is "nothing affordable about 'affordability' tariffs".<sup>15</sup> Their argument is based on the fact that the Government has determined a minimum acceptable level of income, and that help should be provided for anyone who falls below that level. To charge them for water, no matter how little, would therefore be wrong in principle and would create hardship in practice. The Independent Water Review Panel's response was as follows:

"Levels of benefits are determined for the UK as a whole. In setting benefit levels an amount is provided for water and sewage services... As we have seen, when people are passported onto the Affordability Tariff, it is successful in taking them out of water poverty."<sup>16</sup>

Unfortunately, this response fails to take account of the recent Joseph Rowntree Foundation report on poverty in Northern Ireland, which draws attention to some other costs in Northern Ireland, such as higher childcare and energy costs, which UK benefit levels do not take into account.<sup>17</sup> It also fails to take into account a recent report by the Office for National Statistics, which shows that, if we leave housing costs to one side, Northern Ireland has a higher cost of living than any other UK region, except for London and the South East.<sup>18</sup> The report showed that fuel and electricity costs and also motoring costs were much higher here than anywhere else (with the cost of domestic fuel and light being 12.6% higher than the UK average).

The IWRP response further fails to take account of the fact that taking people out of 'water poverty' does not take them out of poverty and does not make any form of water charge necessarily affordable for these people. The affordability tariff for an average house (£3.40 per week)<sup>19</sup> is the equivalent of the amount that the average pensioner spends on food each day.<sup>20</sup> The affordability tariff for an average house for a year (£177.92) is the equivalent of 3 weeks' income support or jobseeker's allowance for a single person, or 6 weeks' child benefit for a lone parent with two children.

The affordability tariff is set with reference to the pension credit rate for a single person (the highest affordability tariff is set at 3% of this amount)<sup>21</sup>, which implies that people aged over 60 in Northern Ireland only require 97% of the government's

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<sup>14</sup> Based on figure of 10.5% of households quoted in IWRP Strand Two Report.

<sup>15</sup> This is referred to in the IWRP Strand Two Report.

<sup>16</sup> IWPB Strand Two Report, Chapter 7 on 'Affordability'.

<sup>17</sup> 'Monitoring Poverty and Social Exclusion In Northern Ireland, 2006' - [www.poverty.org.uk](http://www.poverty.org.uk)

<sup>18</sup> Wingfield, D. & Fenwick, D. 'Relative Regional Consumer Price Levels in 2004', Economic Trends 615, February 2005 -

[http://www.statistics.gov.uk/articles/economic\\_trends/ET615Wingfield.pdf](http://www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf)

<sup>19</sup> For the purposes of water charging, the average house in Northern Ireland has a capital value of almost £115,000 (Source: DSD).

<sup>20</sup> Based on figures from UK Family Resources Survey 2005/06 for pensioners' expenditure, updated to 2007/08 using RPI.

<sup>21</sup> Department for Regional Development, Water Reform NI, 'Charges Scheme for Northern Ireland Water 2007/08', p. 38 [http://www.waterreformni.gov.uk/final\\_scheme\\_of\\_charges.pdf](http://www.waterreformni.gov.uk/final_scheme_of_charges.pdf)

guaranteed minimum level of income. This is despite the cost of living in Northern Ireland being 5% higher than in Wales and the North-East of England, and 3% higher than in Scotland.<sup>22</sup> The use of pension credit as a reference point also ignores the low take-up rate for this particular benefit. The Department for Social Development estimates that the number who are eligible, but do not take up this benefit, lies somewhere between 17,000 and 86,000.<sup>23</sup>

Furthermore, despite the importance attached to 'water poverty' by the IWRP and the Department, their recommendations not only add to the social exclusion of thousands of households already in poverty, but, according to their own calculations, they will leave 10.5% of households (i.e. over 70,000 households) in 'water poverty'.

They report that if the affordability tariff was reduced to zero, this would take "fewer than 300 additional households out of water poverty" and they "do not believe that this would represent good value for money". I would have thought that while the £23million cost quoted may not represent good value for money in relation to its impact on 'water poverty', it does represent very good value for money if it prevents the further social exclusion of most of the 350,000 people living in poverty in Northern Ireland.

The reality is that nobody in Northern Ireland will actually suffer from water poverty – everyone will have enough water. Unfortunately, the most vulnerable will suffer from increased poverty, because the IWRP thinks that benefit levels in Northern Ireland are too high. Some pensioners will, as a consequence, only be able to afford enough food for six days of every week, while other poor families will effectively have a substantial proportion of their benefits taken away from them.

## 5. CONCLUSIONS

So what does all this mean? Two things, I would suggest:

- 1) Affordability tariffs are not affordable, as the people who have to pay them, in almost every case, will already be living in poverty, or close to poverty. These charges will inevitably push some of those in poverty into a condition of severe poverty<sup>24</sup>, and in some cases, into further debt. This effect will be contrary to the Government's stated aims of increasing social inclusion and eliminating severe child poverty.
- 2) 'Water poverty' is of little relevance and plays absolutely no part in the calculations for affordability tariff eligibility. Water poverty, as defined globally, is not actually a problem in Northern Ireland, and the re-invented abstract definition used by the IWRP and the Department serves only to distract from the real issues of poverty and affordability.

In conclusion, I recommend that the Committee ignores the work on 'water poverty' and focuses more on the issues of real poverty and affordability (see Annex A on the

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<sup>22</sup> Wingfield, D. & Fenwick, D. 'Relative Regional Consumer Price Levels in 2004', Economic Trends 615, February 2005 - [http://www.statistics.gov.uk/articles/economic\\_trends/ET615Wingfield.pdf](http://www.statistics.gov.uk/articles/economic_trends/ET615Wingfield.pdf) . Cost of living comparison based on figures excluding housing costs.

<sup>23</sup> See DSD website - [http://www.dsdni.gov.uk/index/news\\_items/statistical-press-release-2911.htm](http://www.dsdni.gov.uk/index/news_items/statistical-press-release-2911.htm)

<sup>24</sup> As measured in absolute terms (after housing costs).

relationship between poverty measures and affordability tariffs, and the reason why the measure of poverty should, in this case, be **absolute**). The Committee should request that further work be carried out on modelling the **real** effects of water charging on households currently living in poverty, particularly those in severe poverty or in danger of being tipped into that category.

The 'very robust propositions' on affordability, promised by the Minister in his statement in the House on 22 October 2007, have yet to materialise, and should be requested following the results of this more relevant analysis.

## **ANNEX A: EXPLANATION OF POVERTY MEASURES AND RELATIONSHIP WITH AFFORDABILITY TARIFF**

The following definition of poverty is provided by the Joseph Rowntree Foundation:

'A household is defined as being in income poverty (or poverty for short) if its income is less than 60% of median household income for the year in question. The median is the income of the average UK household (that is, half of UK households have an income below this level). UK government targets for child poverty use 60% of median income as the threshold against which to measure progress. In calculating household income, an adjustment (following an internationally agreed scale) is made for the number of adults and children it contains. In the most recent year, 2005/06, the 60% threshold was worth: £108 per week for a single adult; £186 for a couple with no dependent children; £223 per week for a single adult with two dependent children; and £301 per week for a couple with two dependent children. These sums of money are after Income Tax, Council Tax and housing costs have been paid. Housing costs comprise rent, mortgage interest (but not the repayment of principal), buildings insurance and water charges. They therefore represent what the household has available to spend on everything else it needs, from food and heating to travel and entertainment.<sup>25</sup>

The above definition refers to the Government's official measure of poverty 'after housing costs'. The Government also uses a 'before housing costs' measure of poverty which uses the same methodology to calculate 60% median income thresholds for different household groupings **before** housing costs have been deducted. The 'before housing costs measure' is used in OECD and EU poverty statistics to compare levels of income poverty between different countries.

As water charges are included in housing costs, **the 'before housing costs' poverty measure will not be affected** by water charges or affordability tariffs.

An 'after housing costs' measure will, however, reflect the impact of water charges, but only in relative terms. This is because it is a relative measure based around median income, and median income (after housing costs) will be reduced when housing costs (including water charges) are increased.

If affordability tariffs are set at less than 60% of the water charge for the average household, then **this could have the effect of reducing poverty as measured by the 'after housing costs' measure**. The disposable household income (after housing costs) of those eligible for an affordability tariff will, of course, be reduced, but not by as much in relative terms as households around the median. The poverty threshold will therefore be lowered.<sup>26</sup>

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<sup>25</sup> Source: <http://www.jrf.org.uk/pressroom/releases/031207.asp>

<sup>26</sup> In practice, the poverty threshold is unlikely to be greatly affected, as it is based on UK median household income and not the NI median. Nonetheless, the use of an absolute measure of poverty would be more appropriate for assessing the real impact of water charges, as it can be shown that the use of a relative measure of poverty can produce spurious results.