

Equitable Water Charging

Water Credits would be economically efficient and administratively simple for Irish Water to implement. They would reduce economic inequality while preserving incentives for water conservation.

A clean and secure water supply is expensive to provide. The introduction of water charges is not only necessary, but provides an opportunity to reduce the inequality that currently exists in how we pay for water in Ireland. However, unless the charging system takes account of the reality of income inequality, it is doomed to failure.

The latest survey data from the CSO shows that 26.9 per cent of households are experiencing deprivation (SILC 2012), for example inability to adequately heat their homes or replace worn furniture. In this context, many people cannot afford any level of water charges.

Nonetheless, an economically efficient system of water charging needs to have the maximum number of households included, to ensure water conservation and to put the public utility, Irish Water, on a sound financial footing.

TASC has examined the detail of water charging in other countries, especially safeguards for people with low incomes, and has developed a Water Credits model that strikes an optimal balance between economic efficiency, water conservation and affordability.

The Water Credits Solution

Access to good quality, clean and affordable water is a human right. But charging for good quality water and recognising it as a basic human right are not mutually exclusive. However, it is crucial that those who cannot afford to pay for the water they need should be wholly protected as an integral part of the future water charging system.

To reconcile social justice, economic efficiency and environmental concerns, TASC's proposal is that everyone should be charged for all the water they use, with those who use excessive amounts of water paying increasingly higher tariffs on the excess. TASC proposes that a system of Water Credits be introduced. People on low incomes would have all or most of their water charges cancelled out by credits, provided by Irish Water. People and families with special needs would also be protected through the allocation of Water Credits.

This would be administratively simple and would not require complex means-testing. Households would opt into the system of Water Credits by declaring their incomes and any other relevant circumstances (e.g. certain disabilities). Random checks and penalties for false declarations should ensure accurate self-assessment by those seeking Water Credits.

Everyone would still receive a water bill and would see how much water they are using. But people in receipt of Water Credits should see all or most of their bill paid by credits on the same bill.

No 'Free' Water

There is no such thing as 'free' water. Irish Water notes that the public water system costs €1.2 billion every year, €1 billion of which comes from the Exchequer (i.e. public finances such as income tax and VAT).

At present, most domestic households are not charged for the water they use. But there is inequality in the system, because those people who waste water are subsidised by everyone else.

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A 'free' and 'universal' allocation of water for everyone might sound like equality, but in reality this is inefficient and wasteful, with general taxation subsidising wealthier households who can afford to pay for the water they use. Water Credits are a much less wasteful means of safeguarding vulnerable households.

Charging everyone for all water use is more environmentally sensible and more economically efficient. Adequate Water Credits will ensure that low income households and people with special needs are not disadvantaged.

Metering is Essential

Individual metering of household water use is essential to promote conservation of this precious resource. Metering is also necessary to ensure an economically efficient use of water.

In 2010, the Comptroller and Auditor General pointed to the high level, 41.5 per cent, of unaccounted for water in Ireland, compared to the OECD average of 20 per cent. The Department of Environment 2012 position paper, *Reform of the water sector*, identifies the two main causes of unaccounted for water as pipe-leakage and unauthorised connections.

In the *Service Indicators for Local Authorities 2012* report (released March 2014) the level of unaccounted for water was only slightly reduced three years later, at 39.9 per cent. Metering is essential to pinpoint leaks from the water system occurring in private property as well as the location of unauthorised connections on private land.

In June 2013, it was reported that the Minister for the Environment, Phil Hogan, would include a 'first-leak' policy where repairs on private properties would be paid for by public money. However, this would be limited to leaks between the public footpath and the hall door, not internal leaks. This policy was to be further elaborated, in conjunction with Irish Water (*Irish Independent*, 7th June 2013).

The same report suggested that up to 300,000 residents of apartments would not be metered. However, there is little reason why this should not occur as apartment metering is commonplace internationally. At the very least, the voluntary installation of apartment meters in private property (as opposed to house meters set in the public footpath) should be explored.

Subsidy and Household Charge Levels

It has been recently reported that there will be an annual subsidy to Irish Water of €537 million per annum. This subsidy would permit an average annual water charge of €240 per household. Without the subvention, the average annual household cost would be €580. The reported charging model would provide every household with a 'free' allowance, plus additional allowances for children (*Irish Independent*, 16th April 2014).

One problem with this proposed model is that it provides a subsidy to many higher income households who do not require it, which in turn lessens their incentive to conserve water, which makes the whole water system less economically efficient.

Another problem with the proposed €240 charge is that many households will still be unable to afford it, leading to costly administrative and legal procedures to pursue arrears, ultimately risking punitive measures such as lowering of water pressure being imposed on tens of thousands of households. In effect, entire areas where socio-economic disadvantage is concentrated may see water services reduced to a sub-standard level.

A charge of €240 is equivalent to 2.5 per cent of the annual income of a person in receipt of the weekly €188 jobseekers allowance, disability allowance or similar payments; and over one million adults of working age receive a weekly social welfare income, not including more than half a million beneficiaries of the State Pension. Detailed examination of the cost of living by the Vincentian Partnership for Social Justice (www.budgeting.ie) has shown that very few people on such low income levels can meet the minimum essential costs of a very basic standard of living, not least when Ireland's high level of housing and childcare costs are taken into account.

Under TASC's Water Credits proposal, the subsidy would be much more efficiently targeted at households that would otherwise be unable to pay. Water Credits would prevent the stress and hardship that universal water charging is likely to impose.

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Giving all households a 'free' allowance or allowing waivers simply shifts the cost to general taxation. TASC is proposing that, based on domestic metering being in place, every household should be charged for all the water they use, but that low income and other special needs households (e.g. disability) would have credits paid on their behalf. Water Credits, rather than blanket exemptions, would keep all households within the water charging system, giving everyone an incentive to conserve water.

A Water Credits system would also allow the Commission for Energy Regulation (as Water Regulator) to set an economic price for water, as long as Water Credits are sufficient to protect those who cannot afford water.

Administrative Simplicity and No Disincentive to Work

Public authorities (e.g. Irish Water, Department of Social Protection) are unlikely to wish to create a complex system of means-testing or to calculate different household water entitlements based on a range of variables. Water Credits offers a simple solution.

Households with low incomes or special needs would have the option to apply for Water Credits – i.e. Irish Water would allocate credits against their water bill, either 100 per cent or partial, depending on their income and other circumstances on a relatively simple sliding scale. This would be administratively simple, and would not require other bodies to be involved. Nor would it involve an excessive administrative burden being placed on Irish Water.

Reducing credits on a sliding scale is important to avoid a 'welfare trap' or unintended consequences from income gains being more than offset by lost Water Credits.

Long-term Water Conservation

Increasing block tariffs complete TASC's model, by requiring users of larger volumes of water to pay increasingly more. This will help ensure that the charging system inculcates water conservation for all households, even those who can easily afford basic charges. Moreover, this will incentivise all households to repair leaks and thus help address Ireland's very high level of unaccounted for water. This proposal represents a win-win balance between economic efficiency, environmental sustainability and social justice concerns, while ensuring that the new public utility has viable income streams.

Conclusion

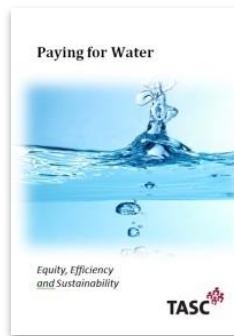
The whole project of charging for water (which is necessary) risks being derailed if water is not affordable. A great many households cannot afford domestic water charges of €240 per annum. A situation where water has to be 'rationed' within low income households will inevitably lead to additional strain on families who have already insufficient means to meet their basic needs. This could lead to widespread non-payment, reduction in pressure, risks to public health, political protests, and an undermining of public support for the more efficient delivery of water as a vital public service. However, a waiver system would be less efficient than Water Credits, provide less income to the utility, reduce incentives to conserve water and put greater pressure on general taxation to pay for water.

Water Credits – based on ability to pay – is the optimum solution for the equitable charging for water in Ireland.

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This briefing is an updated analysis based on TASC's initial detailed examination of water charging: TASC (2013) *Paying for Water: Equity, Efficiency and Sustainability*.

TASC's analysis on Water Credits is available via:
<http://www.tasc.ie/researchpolicy/projects/water/>



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