

Case Study // Round Table SDG 6: Making universal access to water and sanitation a reality in the UNECE region

Introducing social tariffs following an equitable access self-assessment in Portugal

Portugal

Level: national

Summary

After a self-evaluation exercise on assessing progress concerning equitable access to water and sanitation in Portugal, one of the aspects that has been identified as a priority for improvement concerns the existence of several tariff policies at the municipal level. This generates very heterogeneous tariff structures and values, with different impacts in terms of affordability by end-users. At national level, the water and sanitation services are, on average, affordable, although some specific local affordability issues may subsist for the lowest income households. To address this problem, several national policies for tariffs and social security mechanisms have been created, with their application subject to decisions taken at the municipalities level.

Situation

In Portugal, water services are mostly provided at the local level, and each municipality defines the applicable tariffs. Tariffs serve to ensure cost recovery of service provision and to guarantee its affordability by users with different incomes. The decentralisation of decision making regarding tariff structures and values means that there is a wide heterogeneity of tariffs nationwide. Historically, tariff structures in Portugal consist of a fixed part (service availability) and a variable part, which follows an increasing block tariff structure. Although heterogeneous, the average tariff level for a 10 m³ (standard consumption) is around 1,07 €/m³ for the water supply service and 0,79 €/ m³ for the sanitation service. These tariffs are considered affordable since in proportion of the average income household these values represent 0,40% and 0,30%, for water supply and sanitation services, respectively.

Nevertheless, for the lowest income households, or those facing situations of unemployment, these consumer charges may represent a substantial challenge, which brings affordability issues. These concerns are common at the micro-level (lower income households) where social mechanisms should be implemented in order to minimize impacts on the ability of consumers to afford water services. Social tariffs can be a good instrument to overcome affordability issues of lower income households and currently more than half of the municipalities in Portugal have implemented this mechanism.

Strategy

The Water and Waste Service Regulator Authority (ERSAR) has collected information on tariffs since 2007. It then developed and applied an affordability indicator to check macro-affordability levels in 2010. Due to the different tariff structures, there was a need to create three different standard consumption levels (60 m³ /year, 120 m³ /year and 180 m³ /year) to compare charges from different municipalities. The affordability indicator created by ERSAR was designed to assess, at the municipal level, a measure of the ability of the average household (with an average consumption) to pay for water services. Thus, the indicator reflects the ratio between the consumer charges for a standard consumption of 120 m³ and the average household annual income in a given area where the service is provided. In order to assess average disposable income at the municipal level a purchase power index was used to differentiate income between municipalities. ERSAR also published the Recommendation no.1/2009 (tariff recommendation) to harmonise pricing schemes and to attain clear and affordable prices. Apart from establishing a recommended tariff structure, it also established social tariffs as a broad mechanism to ensure affordability for households with a lower income. Additionally, it provided guidelines to abolish connection costs to public networks when these are available nearby properties, whose costs are then reflected in the monthly tariffs of the service.

Results and impact

- Tariffs have gradually increased, following ERSAR's guidelines regarding a sustainable cost-recovery trend and reacting to the benchmarking annually promoted by ERSAR, which exposes both average consumer charges and cost recovery levels for each operator;
- Social tariffs defined in the recommendation established both the eligibility criteria, adaptable to each municipality and the amount of discount that consumers were entitled to receive, comparing with a regular consumer tariff. Overall, this mechanism could represent a final consumer charge 50% lower to those households, which is a substantial discount;
- A legal regime for the automatic attribution of a social tariff for the provision of water services to lower income consumers was established in 2017;
- The drafting of the proposal of the Tariff Regulation for Water Supply Services is currently ongoing. This process is linked with the review of other legislation conducted by the government in order to ensure that the new regulation is applicable to all management models and has a legal framework supporting it. This regulation is a cornerstone to ensure the effective sustainability of the sector and the protection of consumers.

Challenges and lessons learned

The fact that both water tariffs and social policy at the local level are municipal responsibilities often creates incentives for decision makers to artificially over subsidize water services, generating problems in cost recovery levels, which can prevent the sustainability of water operators. Additionally, in most low-income households, the affordability issue is not limited to water services. Since essential goods such as housing, food, education, health, among others, represent a substantial proportion of these households' income, even a small water tariff could leave that household struggling to afford to pay its water bill. For this reason, social mechanisms that tackle poverty in an integrated manner are critical.

Finding the best method of funding social tariffs implementation is still a challenge. The most common method is through cross-subsidization from "regular" tariffs or through local budgets, by identifying specific poorer households who require this type of support (by local social services) or by allowing the application of other criteria (e.g., age, number of people in the household) to benefit from this mechanism. National social security system also has specific support to signalled households.

A proper balance between social mechanisms and achieving sustainability is an important part of affordability. Unsustainable measures often create problems in the long term, so it is very important to achieve an equilibrium between revenues and the costs of these measures to ensure services remain affordable.

Potential for replication

The practice of developing recommendations on tariff setting and social tariffs has a high potential for replication in other countries/locations of similar conditions and sets the ground for developing legislative measures on affordability while ensuring the availability and sustainable management of water and sanitation for all, as featured in the SDG 6.

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