

April 2021

A consultation on the scope and balance of developer charges and incentives

Ofwat

About this document

This consultation concerns the structure and scope of charges for developer services. We want charges that support the ambitions of [our strategy](#). We are consulting on the balance of costs recovered from developers and other customers; our aim is that charges are transparent and fair. And we think charges should be doing more to tackle long-term challenges of the water sector. In particular, water companies should provide incentives for developers to build water efficient new homes and sites with sustainable drainage.

This consultation relates to water companies wholly or mainly in England (**English companies**) and companies wholly or mainly in Wales (**Welsh companies**).

Responding to this consultation

We would welcome any comments on this document. Please email them to charging@ofwat.gov.uk. **The closing date for this consultation is 8 June 2021.** If you wish to discuss any aspect of this consultation, or to arrange a conversation on the issues we have raised, please contact us at charging@ofwat.gov.uk.

We will publish responses to this consultation on our website at www.ofwat.gov.uk, unless you indicate that you would like your response to remain unpublished. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with access to information legislation – primarily the Freedom of Information Act 2000 (FoIA), the General Data Protection Regulation 2016, the Data Protection Act 2018, and the Environmental Information Regulations 2004. For further information on how we process personal data please see our [privacy policy](#).

If you would like the information that you provide to be treated as confidential, please be aware that under the FoIA there is a statutory [Code of practice](#) which deals, among other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on Ofwat.

Contents

1. Introduction and summary	3
2. Context	6
3. Balance of charges	11
4. Environmental incentives	15

1. Introduction and summary

This consultation concerns the structure and scope of charges for developer services, with a particular focus on the balance of costs recovered from developers and other customers (the **balance of charges**) and incentives for better outcomes for the environment and society (**environmental incentives**).

There are separate developer services charging regimes for English companies and for Welsh companies. In this document we consult on issues of relevance to both, at least in the medium term. However, we are not making specific proposals for charging rules for Welsh companies as part of this consultation, which we are currently developing as part of a separate process.

Our aim in this consultation is to make our charging rules better support [our strategy](#) and key themes or principles set out in guidance by Department for Environment, Food and Rural Affairs (Defra) and by the Welsh Government. In particular:

- charges that reflect costs, supporting fairness and affordability across companies' different sets of customers;
- charges that are transparent, benefit customers and, by supporting markets, offer developers greater choice; and
- companies incentivising developers and third party providers to help meet long-term challenges, particularly through developing water efficient new homes and sites with sustainable drainage.

Our [new connection charging rules](#) for English companies came into effect in April 2018. Companies must set their charges to reflect the general charging principles. These are: fairness and affordability; environmental protection; stability and predictability; and transparency and customer-focused service.

Under our charging rules, English companies are required to ensure that the balance of charges that developers pay and other customers pay to cover the costs of a new development are broadly maintained at pre-2018 levels (unless there is a clear objective justification why it is necessary not to do so), (the **balance of charges rule**). This rule was useful for maintaining overall bill stability at the time the new rules were introduced. However, by retaining any over or under charging that existed in the previous arrangements, it means that overall customers are unlikely to pay charges that reflect underlying costs.

We are in the [process](#) of establishing new connection charging rules for Welsh companies. At this initial stage, we have proposed that a similar balance of charges rule would apply to Welsh companies.

We commissioned Frontier Economics to examine the balance of charges that developers and other customers pay to cover the costs of a new development. Frontier Economics considered the full range of costs that might be associated with a new development. Key conclusions of its [report](#) (the **Frontier report**) were that:

- It would be more cost-reflective and in line with the principle of cost causation if developers pay for all off-site costs in consequence of new developments. Currently developers do not contribute to the costs associated with works on strategic assets, such as treatment works.
- The economic rationale for a key industry discount, income offset, is weak. The Frontier report proposes options for reform, which include removing it, using it to strengthen environmental incentives or linking it better to company costs.
- Alternative approaches to charges and charging structures could do more in promoting social and environmental incentives.

We are now consulting on the conclusions in the Frontier report and on the changes we propose to make in response to them.

Separate to this consultation, we have been working to improve the transparency and cost-reflectivity of new connection charges, starting with our May 2020 [consultation](#). In our [conclusions](#) we explained that we intended to undertake further work to better understand how companies' charges can be more cost-reflective: we will publish the consultancy study, being undertaken by SIA Partners, later this year. In addition, we have improved reporting requirements with respect to charges for network reinforcements (**infrastructure charges**) and establishing a rule requiring the revenues to reflect the costs.

Our current thinking is that, while we agree with the principle that developers pay for the costs that are in consequence of new developments, the need for strategic assets may in large part driven by population growth (and paid for through the expanded customer base). We agree with the Frontier report that the income offset discount lacks rationale. And we think it is important that developers should be incentivised to provide water efficient new homes and sustainable drainage. We explain and ask questions on our thinking in this consultation.

Taking account of the findings of the Frontier report, and our parallel work to improve the cost-reflectivity of charges, our proposed approach for charges for developer services for English companies is:

- **Establishing environmental incentives.** We make changes to our charging rules, from April 2022, to better support effective incentives for more sustainable developments. Companies and stakeholders collaborate to share best practice in

setting incentives that are consistent with our charging rules. This may mean that some companies replace income offset discounts with environmental incentives.

- **Improving cost-reflectivity.** Companies continue to improve the cost-reflectivity and transparency of their new connection charges.
- **Retaining the balance of charges rule for the duration of the current revenue control (March 2025).** We want to retain this rule short term, to help smooth the introduction of more widespread environmental incentives.

We propose to retain the current arrangements that developers do not contribute to the costs of strategic assets.

The wider work that we are undertaking means that developers and other customers will be able to have increasing confidence that the charges reflect the costs of new development. This largely removed the need for a balance of charges rule. **From April 2025, we propose to remove the balance of charges rule for English companies.** We propose that any discounts beyond that time would relate to environmental incentives rather than income offset.

We are consulting on these issues with respect to Welsh companies as well as English companies. However, we are not making specific proposals for Welsh companies as part of this consultation. As we are yet to establish our charging rules for Welsh companies, our approach to Welsh new connection charges is likely to involve a different timeframe, and reflect a different policy context.

Any rules we put in place to reflect our decisions on these issues will need to be kept under review to reflect any changes to legislation or have regard to relevant policy of the UK Government and Welsh Government.

The rest of this document is structured as follows:

- In chapter 2 we explain the context of the charging rules and key conclusions from the Frontier report;
- In chapter 3 we discuss the balance of charges between developers and other customers; and
- In chapter 4 we set out issues around environmental incentives.

2. Context

2.1 New Connection Charging rules

Historically, developers have faced some problems with the ways that water companies provided and charged for new infrastructure. Actual charges could vary significantly from original quotations; there was a perception of instances of overcharging, particularly for off-site work; and costs for network reinforcements were often not apportioned across different developments.

Some of these problems were associated with the legislative framework. Changes to legislation enabled us to establish charging rules for the first time, having regard to government charging guidance. This has allowed us to tackle key problems with the old arrangements. For English companies, our Charging Rules for New Connection Services have applied from April 2018. For Welsh companies, we have recently consulted on establishing new connection rules.

Charges for infrastructure for new developments currently consist of broadly the following categories:

- New connection charges;
- Charges for requisitions (new mains / sewers); and
- Infrastructure charges (for network reinforcements; these are not specific to the site).

Companies are not permitted to charge developers for **strategic assets**, such as treatment works.

Features of our English rules, and proposed for our Welsh rules, include:

- Companies being required to publish charges, allowing customers to calculate their likely bill in advance of work being carried out;
- Infrastructure charges, for network reinforcements, being calculated on the basis of average costs over a number of years, with charges being adjusted on the basis of outturn costs. This averaging avoids arbitrary variation in these charges between neighbouring sites; and
- Companies being required to make it clear which of their services are contestable. This means developers can more readily compare incumbents' costs with those of alternative providers. Since the introduction of our charging rules, we have seen a large growth in the market share of alternative providers.

Ofwat developed its English charging rules through extensive engagement with stakeholders. It was clear that the size of individual charges would change because we were revising definitions (for example some costs that were previously recovered through requisition charges would now be recovered through infrastructure charges). We protected the size of bills overall, including through transitional arrangements.

The key protection was the **balance of charges rule**. Under our charging rules for English companies, the charges that developers pay and other customers pay to cover the costs of a new development are broadly maintained at pre-2018 levels (unless there is a clear objective justification why it is necessary not to do so). Companies are required to set charges that recover costs, but may comply with this rule by varying a key discount called income offset.

Companies are in competition with alternative providers for on-site works. Aside from developers themselves, the alternative providers fall into two broad categories:

- self-lay providers (SLPs), which lay water infrastructure; and
- new appointees (or NAVs), which lay infrastructure and then replace the existing appointee as the water and / or wastewater company for the new premises on the sites.

In recent years, in England, there has been a substantial increase in activity by SLPs and NAVs. In [2020](#) we estimated that SLPs provide infrastructure for around 30% of all new water connections.

2.2 Government guidance on balance of charges

In setting our charging rules, we have regard to government guidance. The guidance of both Defra and the Welsh Government includes wording around the importance of developers paying charges that reflect cost; and that the balance of charges between developers and other customers upon introduction of our charging rules should be broadly maintained. We observe that these two aspects of guidance may diverge over time as costs and markets change.

With respect to developers paying charges that reflect cost:

- Defra [guidance on charges for connections](#) says that “The general customer base should not bear costs in relation to new development and developers should not bear costs associated with enhancements to the existing network that are not a consequence of their new connections.”
- The Welsh Government [guidance](#) has fairness and cost-reflectivity as one of its charging principles. It says “Charges that are clearly reflective of the work involved

will build confidence of developers and allow developers to plan and budget for new developments more effectively.”

With respect to the balance of charges, the Defra guidance says that “the current balance between contributions to costs by developers and bill payers should be broadly maintained”; the Welsh Government guidance says that “the current balance between contributions to costs by developers and bill payers should be broadly maintained, although Ofwat may review and consult on this, and, if necessary recommend changes to this guidance in the future.”

Our balance of charges rule for English companies was useful for maintaining overall bill stability when the new rules were introduced. However, it is also a barrier to ensuring that customers pay charges that reflect underlying costs, and is becoming increasingly difficult to define and interpret as much of the new connection work is now being undertaken by SLPs and NAVs.

We consider that the balance of charges guidance is particularly important when introducing the charging rules. As the rules become established, the costs better understood, and more of the activities are undertaken by SLPs and NAVs, we give greater weight to the guidance that charges should reflect costs.

2.3 Frontier Economics report

We commissioned Frontier Economics to examine the balance of charges in detail and discuss potential ways forward. In this section we set out some of the key points from the report.

2.3.1 Strategic assets and income offset

The Frontier report noted that developers do not contribute to the costs of reinforcing strategic assets, such as the building of new treatment works, balancing tanks and forward pumping stations. Instead, these costs are entirely funded by the water company’s wider customer base. This is the case even when the costs of strategic assets are a direct consequence of a new development and not a result of general population growth or growth in demand. The report stated that this is not in line with the principle of cost causation. From an economics perspective, **the Frontier report concluded it is appropriate for developers to contribute to the additional costs required to serve the new developments** - but they should only pay their share of costs (i.e. not including the costs of meeting additional demand driven by existing customers).

Some companies levy discounts, called income offset. These discounts existed under the arrangements pre-dating our charging rules, where they were calculated to take account of the revenue that the water companies would receive from future customers in the new premises. **The Frontier report concluded that the economic rationale for income offset is weak, and income offset could be removed.**

The report said that if there continues to be an income offset discount, there are options for how it could be calculated. Discounts could continue to be used as a balancing item to ensure consistent level of contributions over time from developers and other customers, which is not a cost-reflective approach. Alternatively, any discount could be established from first principles, such as evidence that economies of scale arise due to connecting new properties to the existing network.

The report also considered how discount might be applied. Currently, for most English companies, the discount is a flat rate per new connection. Another option is to use income offset as a price signal to promote environmental objectives. This could include discounts to provide sustainable drainage systems, or to encourage building homes away from water-scarce zones or areas with capacity constraints.

2.3.2 Network reinforcement costs and policy options

The Frontier report considered different options for recovering off-site costs. The typical current approach for English companies is to set a flat rate infrastructure charge per new connection. The report found that this approach did little to promote environmental incentives or user pays principles. It recommends exploring charging approaches that provide sharper price signals and do more to promote environmental objectives.

The infrastructure charge could be set to reflect network capacity in different geographical areas. For example, charges could be set lower in areas where there is spare network capacity and also water resources, and higher in areas where there are capacity constraints. The report also recommends greater use of environmental incentives such as developers being charged less if they build water efficient homes, provide sustainable drainage systems, rainwater capture or grey water recycling (some of these incentives are currently offered to a different extent by different companies). The infrastructure charge could also be linked to consumption and usage – for example recovering network reinforcement costs on expected per capita consumption basis.

The report sets out a number of different policy options. For example, it proposed that environmental objectives could be achieved more effectively by a combination of:

- zonal charging recognising local capacity constraints more effectively;

- offering water efficiency discounts; and
- offering an income offset/greater income offset where there is more capacity on the network.

Q1: Do you have any comments on key conclusions from the Frontier Economics report?

3. Balance of charges

3.1 Overview

In this chapter we consider key recommendations from the Frontier report, and how we propose to take them forward.

The Frontier report questions why developers pay the costs of network reinforcements but do not contribute to costs of **strategic assets**, such as capacity for treatment works. Having considered the likely scale of these costs, and taking our charging principles into account, we are not proposing to introduce developer charges for strategic assets. We do however think that the framework should allow for environmental incentives, which we discuss in chapter 4.

The Frontier report concludes that income offset lacks clear economic rationale. We agree with this and propose that water companies cease to offer income offset, at least by 2025.

3.2 Strategic assets

The Frontier report concluded that there is no clear economic rationale for developers to pay less than full costs of developments, including the costs of strategic assets, but that they should only pay their share of costs where additional demand is also driven by existing customers. We agree with this in principle.

If we are considering a fair allocation of costs between developers and bill payers, then it is relevant to think about what the costs would be in the absence of any new development. This is a different exercise to the growth modelling undertaken as part of a price review, where there is typically agreement that there will be some housing growth, but there may be differences of view as to the scale of that growth. Our view is that most costs of strategic assets are associated with population growth, and would still be incurred under a counterfactual of no new development but still with a growing population. In other words, if people did not live in new houses, they would live in existing houses. Strategic assets serve a large area, such as a water supply zone. Provided that new development in the area is built to high water efficiency standards and with sustainable drainage, it should not materially change the requirements for water resources or water treatment or dry-weather wastewater treatment capacity. Hence it should not materially affect the costs of strategic assets.

In contrast, developments affect population distribution within a locality, and hence costs of network reinforcements are incurred as a result of developments. This provides

a rationale for treating the recovery of network reinforcements differently from strategic assets.

While this is a simplification, it supports our charging principles around predictability, transparency and stability (because one-off costs of strategic assets vary substantially over time, often with years of very little investment, and then a small number of large investments).

We therefore propose to retain the current framework that developers do not contribute to the costs for strategic assets, with the exception that there are environmental incentives, which we discuss in the next chapter.

3.3 Network reinforcements

The Frontier report concluded that there was merit in replacing the existing average infrastructure charge with price signals, for example to reflect local capacity constraints more effectively.

Under our English rules, companies can choose whether they wish to set infrastructure charges that vary according to location. They are, however, required to set the charges that reflect costs over a five year period.

We do not propose to prevent companies setting simple infrastructure charges for most developments. This is because we [consulted](#) on this issue in 2019, and gathered additional evidence as part of our review of incumbent company support for effective markets (RISE), which we [published](#) in 2020. We accept that many developer customers prefer the benefits that these highly averaged charges bring.

In the most remote locations, away from the existing sewerage network (and potentially even the water network), however, we think that the benefits of differential infrastructure charges may be stronger. For example the price signal of the incumbent may allow a NAV to offer a lower cost solution, such as a local treatment works. We are therefore considering whether for English companies to have a requirement of more bespoke infrastructure charges for some of the most remote developments. For such developments, we propose that the infrastructure charge would be published but it would be set according to cost drivers, for example the length of network reinforcements required.

3.4 Income offset and balance of charges

The Frontier report concluded, with detailed reasoning, that there did not appear to be a clear economic rationale for income offset. We agree with its finding.

Income offset is described in our English charging rules as being in recognition of revenue likely to be received by the relevant undertaker in future years for the provision of water and wastewater services. We consider that the additional revenue is largely associated with population growth rather than new development per se, and it is not appropriate for it to accrue to developers. (This is also the reason why we propose not to charge developers for strategic assets, as set out above.)

We therefore propose to remove the ability to offer income offset for English companies from April 2025 onwards, and remove the balance of charges rule at the same time. These changes are timed to coincide with our PR24 determinations. For the companies that currently apply income offset, this can be expected to increase developers' bills. However, there are offsetting factors; for example the increasing competition that we are seeing from SLPs reducing bills.

We think that developers and other customers can have growing confidence that charges for developer services are fair because:

- developers having choice as to who lays the onsite infrastructure, including the charges paid, with much of the work now being undertaken by SLPs and NAVs;
- we are undertaking ongoing work with companies (including our May 2020 consultation, and current work by SIA Partners) to improve the cost-reflectivity of companies' charges; and
- companies are now required to publish annually the revenues and associated costs for network reinforcements / infrastructure charges, and set charges on the basis of average five year cost.

We think these changes better reflect Defra's guidance that the general customer base should not bear costs in relation to new development and developers should not bear costs associated with enhancements to the existing network that are not a consequence of their new connections, and better furthers the ambitions set out in our strategy.

3.5 Markets

It is important that these proposed arrangements work while maintaining a level playing field with alternative providers of developer services.

SLPs, and NAVs without strategic assets (which are the vast majority of NAVs and NAV sites), are not materially affected by how the costs of strategic assets are recovered. Nor are they affected by the size of any income offset, because that does not affect their competitive position.

NAVs looking to invest in strategic assets, such as wastewater treatment works, are affected by how these costs are recovered. If such NAVs do not have bulk agreements with incumbents, they may also be affected by consideration of any income offset.

As explained, we are proposing to retain current arrangements where costs of strategic assets are not paid for by developers. It has been suggested that an alternative, where developers are charged for strategic assets, would make it easier for NAVs wishing to invest in strategic assets to compete. We think on average that is not the case because:

- the timing of the NAV application would not typically coincide with the need for the incumbent water company to expand its corresponding strategic assets; it would therefore often be the case that the incumbent's charges to developers would not be any higher under this approach, and so it would remain difficult for a NAV to recover costs of strategic assets from a developer while remaining competitive; and
- all water companies, including NAVs, would gather less revenue from their household and retail customers, making the NAV with strategic assets worse off under such an approach.

Income offset is a discount that is unavailable for NAVs without bulk supply and / or discharge agreements with incumbents. Removing income offset would reduce barriers to such NAVs competing with other NAVs and with incumbent water companies to serve sites.

Q2: We seek views on our reasoning and proposals with respect to charges for strategic assets, income offset and the balance of charges rule

4. Environmental incentives

4.1 Overview

The water sector and wider society need new homes to be water efficient and new sites to have sustainable drainage. These features help tackle profound long-term challenges, not least climate change. Developers who introduce these features should pay less than those who do not. Any discounts should be administratively simple, transparent and predictable so that a developer can have confidence in the amount that they will save.

While all but four companies already offer some form of environmental discount to developers, there is much more that can and should be done by all parties. Industry should work with each other, with key stakeholders, and with developers to introduce and share best practice. And we should clarify our charging rules to support effective incentives and innovation.

4.2 Long-term challenges

Climate change impacts can include an increase in the quantity, frequency and / or intensity of rainfall. Flooding risk is recognised as a significant challenge by both UK and Welsh Governments. For example, Welsh Government forecasts that Wales will have 5% more rain in winter and 16% less rain in summer by 2050. Changes to weather patterns combined with other changes to land use – for example replacing grass with paving – can put increased pressure on the sewer system.

The increased frequency of instances where sewage has been discharged direct into rivers or sea, via combined sewer overflows, has led to increasing public concern over the environmental and social impact of such discharges. A joint water industry-UK government taskforce was set up in 2020 with the long-term goal of eliminating harm from storm overflows in England. In Wales, the Drainage & Wastewater Management Plan Steering Group is considering this and related challenges. It is clear that upstream ‘separation’, whereby surface water is kept out of the combined sewer system in the first place, needs to be an integral part of the solution.

Sustainable drainage systems (**SuDs**) help manage risk of flooding and reduce the use of sewer overflows. Since 2019 SuDs have been mandatory in Wales for surface water for all new developments of more than one dwelling or where the construction area is 100 square meters or more. (This forms part of [The National Strategy for Flood and Coastal Erosion Risk Management in Wales](#).) Since 2020, English companies have had

codes, models and guidance for adopting SuDs, along with other sewerage infrastructure.

Climate change, population increases and the need to protect the environment also mean that in the future there will be increased risks of water shortages. The National Infrastructure Commission (NIC), considering the issues with respect to England, concluded in its [2018 report](#) that concerted actions are needed now to address these challenges. The NIC recommended a “twin track” approach of reducing demand and increasing supply to increase drought resilience.

Defra launched a [Consultation on measures to reduce personal water use](#) in July 2019. The consultation sought views on various measures that could be taken forward – such as revising building regulations, water efficiency labelling schemes and the use of rain water harvesting and water reuse schemes.

4.3 Why environmental incentives are needed

Choices as to how developments are built have wider implications than are currently reflected in our charging rules: they have implications for future water resources through the water efficiency of the new premises; and for network resilience or flooding, through treatment of surface water drainage. They may affect wastewater treatment requirements, for example with respect to planning restrictions around nitrates. These choices affect water companies’ costs and resilience long term and / or those of wider society and the environment.

Setting environmental incentives supports our strategy to deliver more for the environment, and to collaborate to meet long-term challenges. It also supports charging principles of environmental protection and environmental sustainability that form part of the charging guidance to us from the UK Government and the Welsh Government respectively.

Any rules we put in place to enable this will need to be kept under review to reflect any changes to legislation or policy of the UK Government and Welsh Government.

4.4 Current practice: 2021-22 charging arrangements

Of the 17 large water companies, ten currently offer discounts for water efficient fittings in new developments. Typically, companies are offering discounts for evidence that

consumption level of less than 105–110 litres per person per day will be achievable in the new properties (drawing on building regulations methodology¹).

Discounts for reduced surface water drainage are less common at present. Several companies offer discounts when there is no surface water to public sewer. Severn Trent and Wessex Water offer discounts for sustainable drainage systems.

4.5 Our charging rules

Our new connection charging rules for English companies lists environmental protection as a principle but does not include rules for environmental incentives.

Defra guidance states that Ofwat must have regards to principles including that of Environment Protection in setting charging rules. Welsh Government guidance states that Ofwat should consider how the charging rules can promote environmental sustainability, and in particular the use of SuDs.

We propose to clarify our rules for English companies in this area, and consider the extent to which related provisions – particularly in relation to SuDs – should be included in rules for Welsh companies:

- We propose to have rules that define charges or discounts relating to environmental impacts, with the expectation that there are incentives for water efficiency and reductions in surface water drainage.
- To better support third party providers, the environmental incentives should be applied at the point of new connection, and not earlier in the process.
- We see environmental incentives as being largely separate from infrastructure charges: they would only be reflected in infrastructure charges directly to the extent that they reflect savings to costs of network reinforcements.
- The success of any incentives is in large part driven by how they are implemented, including their transparency and predictability; we are considering whether we would need to change our rules to support this.

4.6 Companies setting effective incentives

Companies and stakeholders already collaborate extensively, for example in relation to water efficiency (notably the UK Water Efficiency Strategy Steering Group, convened by

¹ https://www.planningportal.co.uk/info/200135/approved_documents/69/part_g_-_sanitation_hot_water_safety_and_water_efficiency

Waterwise) and developer services (such as the Water UK New Connections Committee). We can see great value in collaborating on environmental incentives, including metrics, terminology and aspects of presentation for environmental incentives. While recognising that risk of water shortages and flooding can vary substantially by location, we also think that companies should be sharing best practice and existing research in how they set the size of incentives. For example, water efficiency incentives can reflect savings of additional water resources, or costs of other forms of demand management, which are already quantified.

Companies should also recognise and incentivise greater innovation. This requires water companies to work with developers, NAVs and other stakeholders, such as the Bathroom Manufacturers Association, to go beyond established methodologies. For example, they might offer larger discounts for water-efficient fitting (such as the avoidance of “leaky loos”), or for on-site grey or rainwater harvesting.

Prior to 2025, as we are proposing to retain the balance of charges rule, the size of bills overall will be broadly maintained. However, those with more sustainable development would benefit from discounts and those without sustainable development would pay relatively more.

It will take some experimentation to establish incentives that are effective and estimate their likely uptake. But by 2025, when the balance of charges rule is removed, developers need to have confidence that the overall package of charges reflect underlying costs. As already noted above, the incentive regime we put in place will need to consider relevant legislative developments by government, for example building regulations.

4.7 Markets

It is important that these incentives work while maintaining a level playing field with SLPs and NAVs.

The incentives would be applied together with infrastructure charges, and so be unaffected by which parties (for example an SLP, developer or a water company) lay the infrastructure.

There are some advantages in using the same incentives for NAVs as those for developers. However, it may sometimes be beneficial to NAVs and more practical to use different but equivalent metrics such as ongoing water consumption or discharge volumes. This is particularly the case were a NAV to introduce grey water recycling or similar systems – and we have recently revised our [guidance](#) on bulk charges for NAVs highlighting that these factors should be reflected in charges.

Q3: What environmental incentives should water companies be offering developers and NAVs? We are interested in examples of good practice. How can we better support this?

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533

© Crown copyright 2021

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to mailbox@ofwat.gov.uk.

OGL