



The voice for water consumers
Llais defnyddwyr dŵr

**CCW's response to
Water Services Regulation Authority
(Ofwat) consultation on the scope and
balance of developer charges and
incentives**

8 June 2021

Introduction

1. CCW is the independent voice for water consumers in England and Wales. Since 2005, we have helped thousands of consumers resolve complaints against their water company, while providing free advice and support. All of our work is informed by extensive research, which we use to champion the interests of consumers and influence water companies, governments and regulators. We welcome the opportunity to comment on this consultation.
2. Although we support the environmental aims of this consultation, it is not clear to us that proposals will achieve these.

Response to specific questions

Question 1: Do you have any comments on key conclusions from the Frontier Economics report?

3. The consultation document outlines the Frontier Economics recommendations that zonal infrastructure charges should recognise local capacity constraints gives the example that 'charges could be set lower in areas where there is a spare network capacity and also water resources, and higher in areas where there are capacity restraints'. However, this seems to contradict the statement in section 3.3 that 'the infrastructure charge [could] be set according to cost drivers, for example, the length of network reinforcements required'.
4. Remote areas, which are likely to have more spare network capacity than densely populated areas, are likely to need more new pipework installed to meet the demands of any new developments in the area. Hence, we struggle to understand when infrastructure charges could be both lower **and** reflective of the length of network reinforcement required.
5. Furthermore, developers pass all of their costs on to house buyers, through the house price. Given that infrastructure charges are currently less than 1% of the cost of an average house in England¹, these charges would have to be set at a significantly higher level to deter a house buyer from moving into a specific area. This is especially true when house buyers choose where to live on the basis of issues such as job availability and access to transport, schools and childcare, as well as local amenities; and expect these benefits to last for several years.
6. In addition, we understand from discussions with stakeholders that developers want more transparent charging systems – which Ofwat has recognised as it has developed its guidance on connection charges. A zonal system of charge would add greater complexity and it is not clear to us that this would deliver any of the intended outcomes.

¹ [UK House Price Index - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk)

Question 2: We seek views on our reasoning and proposals with respect to charges for strategic assets, income offset and the balance of charges rule.

7. We recognise that there seems to be no justification for companies continuing to offer income offsets. Furthermore, the continuation of the balance of charges rule is generally predicated on the existence of the income offset. However, the consultation paper has not given any indication of the likely financial implications of removing these mechanisms. If the income offset and balance of charges rule are to be removed, therefore, this needs to be done with enough lead time to enable water companies to fully identify, understand and prepare for all of the implications.
8. In particular, companies should be given enough time to identify how their charges might change and to develop handling strategies to help developers manage the impacts where there are significant increases in charges for new connection work.

Question 3: What environmental incentives should water companies be offering developers and NAVs? We are interested in good practice. How can we better support this?

9. We agree that there is a need to support more sustainable developments in principle. However, we question whether the environmental incentives discussed in the paper are sufficient to achieve this.
10. The paper mentions two types of incentive: reductions against the water infrastructure charges, for the installation of water efficient fixtures and fittings, and reductions against the sewerage infrastructure charge, for reducing the flow of surface water sewage into company networks. A number of companies already offer incentives based on these criteria and we discussed how most of these are operating with companies last year.
11. Following these discussions, it is our view that the evidence on the effectiveness of existing incentives is currently very limited. Until we are clear about effectiveness, we are not in a position to identify good practice. Furthermore, because of this lack of information, it is not clear to us who is bearing the cost of any current inefficiencies.
12. On the sewerage side, there is less opportunity for customers to reverse the arrangements that developers put in place. On the water side, however, we are particularly concerned that it is relatively easy for house buyers to remove water efficient fixtures and fittings, if they so wish. This is especially a risk if customers do not understand why they are needed or feel that they don't meet expectations. If the fixtures and fittings are removed, this would result in developers receiving rebates for taking action that is subsequently reversed. In the long-term, this could mean that the wider customer base has to invest sooner in developing the water resources to meet future demand – essentially subsidising the failure in the incentives that have been paid to developers.
13. The consultation states that it will take 'some experimentation to establish incentives that are effective and estimate their likely uptake'. Hence, there is a risk of prolonged periods where ineffective incentives might be in place. Water customers should not bear any additional costs if these incentives are not promoting the right behaviour.

Enquiries

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