United Utilities response to Ofwat's
Consultation on the scope and balance of developer charges and incentives

Introduction

UUW welcomes the opportunity to comment on Ofwat's consultation on the scope and balance of developer charges and incentives. UUW supports charges that are transparent and fair and considers charges have a role to play in addressing long-term challenges of the water sector.

Whilst we are generally supportive of Ofwat's direction of travel and key objective, we have very significant concerns regarding the transition arrangements for removal of the income offset and the significant impacts this would have on developer charges, developer customers and the implications for growth and development in the region as well as the impact on UUW in terms of financial implications and the impact on customer sentiment.

UUW has the largest income offset in the sector, both in terms of absolute size and the value per connection, meaning that the proposed changes are of particular concern to UUW, customers and the developers in the North West region. Significant, sudden or poorly signalled increases in developer charges, however justified, will be detrimental to new property growth and the "levelling up" agenda in the North West. The position Ofwat is now advocating on income offset is a significant reversal of past guidance and past charging practice. It is essential, therefore, that a change which would have very material consequences for developer customers and the potential for development in the region proceeds only with an extended transition period, commencing in AMP8, recognising the significant impact of proposals on developers customers and regional development, as well as the financing impacts on the company. We note that Ofwat's consultation makes no attempt to quantify the impact of the changes it proposes on the appointee, developer customers or the wider economic implications in the North West. A meaningful impact assessment would have demonstrated that the quantum of impact of the changes – being an approximate doubling of charges to developer customers and a significant impact on the financeability assessment that would apply to UUW – rendered the timelines suggested in Ofwat's consultation unreasonable. Not only would the proposed changes be disruptive to the delivery of investment in the region, but they would also be out of step with many other areas of charging guidance from Ofwat and Defra[1] in relation to the balance of charges, incidence effects and the transitional charging arrangements.

Instead, Ofwat's principle concerns appear to be the utilisation of the disturbance in charges as a means of introducing environmental incentives – something that has already been reflected in charging schemes and structures in the North West – and the impact of the income offset on the operation of existing contestable markets. We note that the income offset does not confer any detriment to effective operation of existing contestable markets – in particular the changes Ofwat made to infrastructure charges and income offsets in 2020 sought to better ensure that all parties were treated equally, thus levelling the playing field. Whilst there is a theoretical detriment to full service NAVs, there are currently none operating in North West. We are also only aware of interest in wastewater full service, and we do not have a wastewater income offset.

In summary the key points we consider Ofwat should take account of are:

- It would not be appropriate to make changes to the income offset part way through a price control period as this would retrospectively change the balance of revenues, undermining PR19 financeability assessments. This would significantly harm trust in the regime and undermine the basis on which the price control has been set and accepted in the final determination. Any significant change to the income offset in AMP7 would (effectively) change the balance of "fast

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/575368/ofwat-charging-guidance-sewerage-connection-charges.pdf

cash" and "slow cash" recovery of revenues, towards "slow cash" to the detriment of AMP7 financeability.

- We are concerned that the proposed exit from the income offset is rushed and disorderly, largely reflecting the absence of an adequate impact assessment in making the proposals.
- Companies should facilitate a transition away from income offset commencing from 2025/6. This transition away from income offsets should, in parallel, be managed through the PR24 price control process to ensure that impacts on financeability can be managed appropriately. Given the scale of the change and its impact on customers in the North West, we expect that this transition is likely to take many years in order to avoid unacceptable and disruptive incidence effects, in line with the approach taken for significant disturbances in charges in the past.
- We consider it important to plan, in advance, common expectations for transition arrangements from AMP8. It is important that developers are treated fairly across different regions. This may mean that transition may take longer in some regions than others, to ensure that annual incidence effects are equitable between different company regions. In particular, developers in the North West should not be expected to bear greater incidence effects than developers in other regions (as would be the case if Ofwat sets a fixed date for transitioning out of income offsets), with consequential harm to regional development and the levelling up agenda.
- We are always keen to consider effective ways of driving behavioural change through charges and tariffs, including environmental incentives that apply to new development. However, we note that we have already implemented a comprehensive suite of environmental incentives in this area and these are already reflected in charges schemes. In practical terms this means that there is likely to be limited opportunity in the near term to use such incentives to mitigate loss of income offsets.

We note that at industry presentations subsequent to the consultation, Ofwat representatives have indicated that the intention is that developers as a group should not pay a higher proportion of charges during AMP7 and that it is envisaged that transition would commence in AMP8.

The first statement – about near term stability of charges in AMP7 – is both a welcome acknowledgement of the need to acceptably manage transition and also an essential recognition of the constraints around making mid-AMP changes to a delicate balance of revenues. However, it is absent from Ofwat's consultation document and needs to be embedded in the eventual decision that Ofwat takes.

The latter statement – about transition commencing in AMP8 – is an essential ingredient in making removal of the income offset acceptable to UUW and developers in the North West and in enabling the transition to be managed over a reasonable timeframe. However, Ofwat's consultation document appears to anticipate an earlier start to the transition. Again, Ofwat's final decision should reflect that transitions should start in AMP8 and may need to continue for many years.

We have responded to each of the questions set out in the consultation in more detail below.

United Utilities response to Ofwat's

Consultation on the scope and balance of developer charges and incentives

Consultation questions

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

We note that the key conclusions from the Frontier Economics Report are as follows:

- The economic rationale for the income offset is weak
- Removing the income offset from the requisition charge means that developers pay for the cost of requisition in full. It has also helped to facilitate more effective competition between the incumbent, NAVs and SLPs by simplifying the charging structure, and avoiding any possibility that the income offset distorts competition
- If the income offset is retained this could potentially distort competition with full service NAVs who may not be able to fund an income offset
- It would be more cost reflective and in line with the principle of cost causation if developers did pay for all of the off-site costs they cause
- The current approach to recovering costs for off-site/network reinforcement does little to promote environmental incentives or user pays principles. Options could be explored including whether charges could be higher in areas where network reinforcement costs are higher and lower in areas where costs are lower.

Our key comments on the above points are:

Whilst we are not seeking to defend the economic rationale for the income offset, we do not consider the income offset as it is currently applied distorts competition. The income offset is currently applied on the same basis to developers, self-lay providers and 'basic' NAVs[2] (which constitutes most, if not all, of the current NAV market) with no detriment to competition. This is evidenced, for example, by the prevalence of competitive service provision in the North West, in which UUW does not provide the majority of services to developer customers. This real-world evidence provides important context which has not been considered in the Frontier Economics' report.

We do not consider that retention of the income offset would necessarily distort competition for full service NAVs. There are currently no full service NAVs operating in the North West of England. From our stakeholder engagement our understanding is that full service NAVs are primarily in the market for wastewater services and as we do not offer an income offset on wastewater, this would not present a barrier to entering the market. In addition, other simpler options are available to remove barriers to entry for full service NAVs. For example, we would be open to changing the charging rules to allow income offset payments to be made to full service NAVs and, indeed, would be happy to explore this even whilst the income offset was being transitioned away.

More detailed comments on the key conclusions are picked up in our response below to questions 2 and 3.

[2] 'Basic' NAVs: This is where the NAV only provides its own on-site infrastructure and services, and needs to rely on the incumbent for all off-site infrastructure, services and resources.

United Utilities response to Ofwat's

Consultation on the scope and balance of developer charges and incentives

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

We have set out our views on the reasoning and proposals with respect to charges for strategic assets, income offset and the balance of charges rule below:

Strategic Assets

We agree with Ofwat's proposal not to introduce developer charges for strategic assets.

Income Offset

As mentioned in our response to question 1, we do not consider the income offset, as it is currently applied, distorts competition. The income offset is currently applied on the same basis to developers, self-lay providers and 'basic' NAVs with no detriment to competition.

The North West of England is home to a vibrant competitive market for developer services. United Utilities has over many years taken positive steps to support this market. In 2018/19, within the UUW region, Self-Lay Providers (SLPs) constructed over 80% of new mains and undertook over 85% of connections to new properties off new mains. It is our view that the level of self-lay activity observed in the North West demonstrates the market is operating successfully without significant barriers to competition. We make substantial efforts to engage with participants in the developer services market to both help us understand the impact our actions have on customers operating in this market and also to inform market participants of potential changes. We seek to promote the developer services market through a number of channels including our Developer Relationship Manager, regular technical forums, charging sessions, regular planned stakeholder meetings and our annual developer conference which has been very well attended for a number of years. Regular and ongoing engagement with developer stakeholders provides an opportunity for us to make developers aware of any upcoming changes sufficiently in advance. Developers tell us that they need two years minimum notice for significant changes to charges as the investment case for individual developments is justified on expectation of fees and charges at the time. For a change as significant as removing the income offset, it is clear that longer notice and more extended transition is required.

We recognise that one area where the income offset could cause a barrier to entry is in relation to full service NAVs. There are no full service NAVs operating in the North West and we have observed that full service NAVs are currently only interested in providing wastewater services in UUW's area. As we do not provide an income offset on wastewater, this would not present a barrier to entry for full service NAVs.

In relation to full service NAVs, alternative simpler options to removing the income offset are available such as changing Ofwat's charging rules to allow the income offset to be offered to full service NAVs. We would be happy to explore this even whilst the income offset was being transitioned away.

If the income offset is to be removed it should be transitioned from AMP8 onwards, with the impact on the balance of revenues and company financing properly taking into account at the PR24 price control. We consider it unreasonable to introduce such a substantial change during a price control period, without proper transition arrangements in place to accommodate the impact on charges to developer customers, the potential impact on regional development, and also the impact on company finances.

Frontier Economics and Ofwat both cite the income offset as not being considered cost reflective. We do not consider this to be a good enough reason to cause a significant disturbance to the market and developer customers, especially when an appropriate assessment of the impact to contestable markets has not been completed. Neither Ofwat's consultation nor the Frontier Economics report provide any meaningful impact assessment of such changes in the North West and therefore do not reflect the very significant impact the proposals would have for developer charges, developer customers and the implications for growth and development in the region as well as the impact on UUW in terms of financial implications and the impact on customer sentiment. UUW has been an early adopter of environmental incentives to developers (for both water efficiency and sustainable drainage), and therefore we have limited opportunities to implement further incentives to mitigate the impact of changes proposed to the income offset – the only effective way that we see transition being effectively managed is via the PR24 price control process.

The income offset provided by UUW is the largest in the industry both in terms of absolute size and per connection. The impact of the changes are therefore likely to create more disturbance for developers in the North West of England and for UUW than for the typical water company. Removal of the income offset will result in overall revenue being recovered from developer customers in the North West increasing by circa 200%. The scale of these changes could impair the prospects for economic development in the North, compared to other English regions. Such discrepancy in the regional effects of Ofwat's policy could be viewed as acting contrary to the national government strategy not only to build, but also to "level up" the country.

As set out by Prime Minister Boris Johnson in June 2020, government strategy is clear, to "build, build, build"[3]. Income offsets per plot of £778 are currently offered in the North West. This is the largest figure for new water connections across all of the WaSC and WoCs. Figure 1 below displays the region by region impact[4], showing that new developments in the North West would be hardest hit as a result of removing the income offset.

[3] https://www.gov.uk/government/news/pm-build-build-build

[4] Yorkshire Water and Northumbrian Water do not offer an income offset. Yorkshire Water removed this provision from 1 April 2018 and Northumbrian Water removed this from 1 April 2020

United Utilities response to Ofwat's

Consultation on the scope and balance of developer charges and incentives

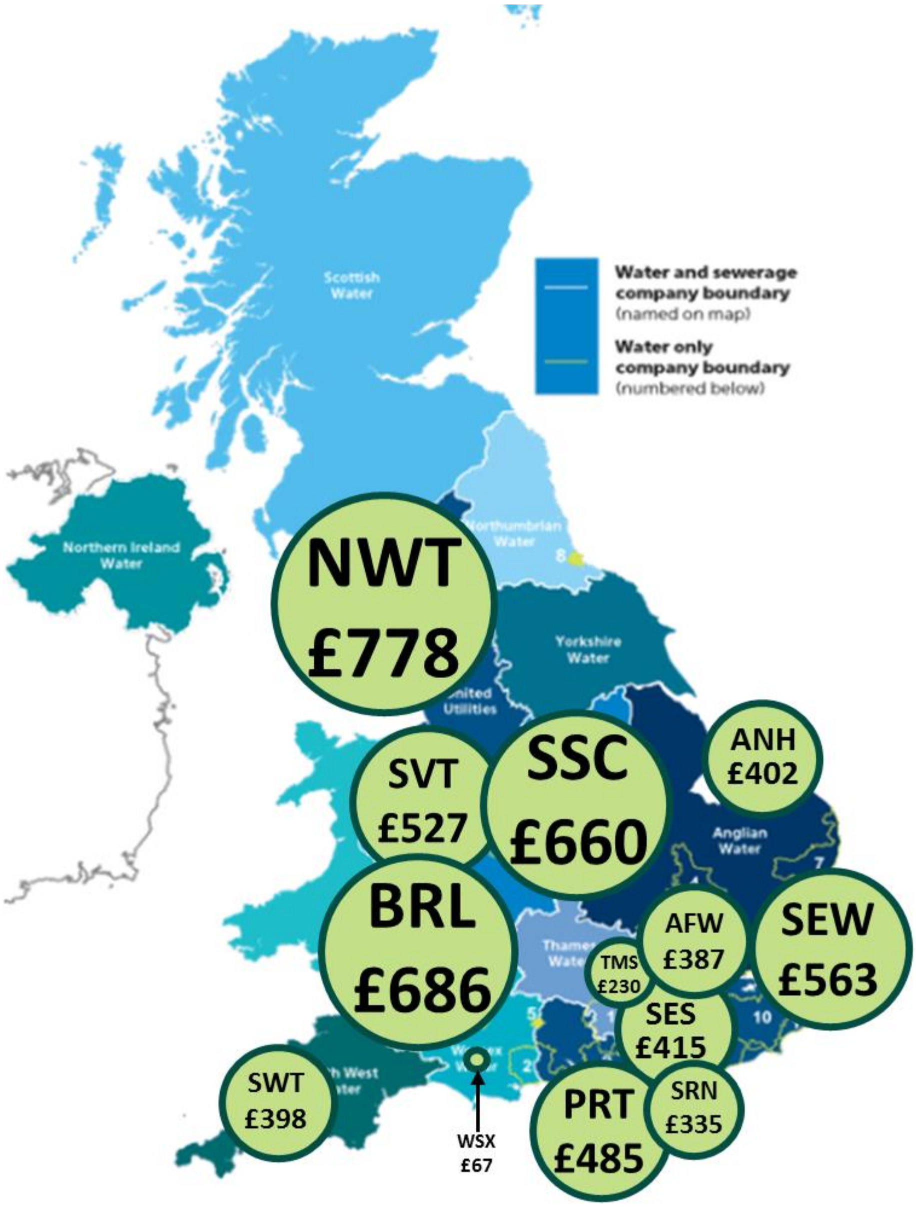

Figure 1 - 2021/22 water income offset offered by English WaSCs and WoCs

In 2020/21, the value of income offset contributed approximately £25 million to the North West construction industry. The Treasury's £4.8 billion Levelling Up Fund[5] aims to provide a platform for both regional and local economic growth through the investment in towns and infrastructure[6]. The North West has 23 out of 70 'priority 1' English local authorities listed for the Levelling Up Fund[7]. Therefore, we are concerned that an immediate removal of the income offset will have a disproportionately negative effect on the North West construction industry and developers in our region would lose significant contributions to their developments.

It is important that the introduction of a proposed cost reflectivity rule in April 2022 and the removal of the balance of charges rule requirement from April 2025 continue to be balanced with other charging

---

[5] https://www.gov.uk/government/publications/levelling-up-fund-prospectus

[6] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966138/Levelling_Up_prospectus.pdf

[7] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966137/Levelling_Up_Fund_list_of_local_authorities_by_priority_category.xlsx

principles, recognising that all the charging principles are important and that sometimes these are in tension. In the event of a significant change in costs, a company should be encouraged to transition towards any such change over time, rather than feeling obliged to immediately impose a significant increase in charges, in order to immediately comply with changes to the charging rules. There is ample evidence that customers – including developers – are not supportive of sudden changes in costs which could in some cases undermine the economic case for any given development. For this reason, developers and their representatives have frequently told us that they need at least two years notice for any significant changes in developer charges.

We would need to transition removal of the income offset over a number of years to manage the impact on developer customer bills by limiting annual increases. Ofwat's own new connections charges scheme rules refer to a 10% maximum increase in charges as being an appropriate benchmark. This appears to be a reasonable basis on which to design a handling strategy for what are material incidence effects for this customer group. Table 1 below shows the impact of removing the income offset on the typical scenarios (water only, excluding building water) that are required to be published in company charges schemes. This highlights the scale of the impact and the size of transition required across different types of developments in UUW's region. We acknowledge that the impact of the proposed changes will be different across companies.

	Gross £	Income offset £	Net £	Impact %
Single Short Service Connection (17.1)	1,346	-778	568	137%
Single Long Service Connection (17.2)	1,614	-778	836	93%
Short Block 10 flats (17.3)	8,541	-7,780	761	1022%
Long Block 10 flats (17.4)	9,021	-7,780	1,241	627%
Small stat (10 plot) (17.5)	22,669	-7,780	14,889	52%
Medium stat (50 plot) (17.6)	111,428	-38,900	72,528	54%
Large stat (200 plot) (17.7)	371,478	-155,600	215,878	72%
Small SLP (10 plot) (17.8)	11,289	-7,780	3,509	222%
Medium SLP (50 plot) (17.9)	29,058	-38,900	-9,842	-395%
Large SLP (200 plot) (17.10)	76,758	-155,600	-78,842	-197%

Table 1 - Published 2021/22 Charge

UUW has already introduced significant environmental incentives as part of its charges schemes and tariffs. Partly because of this, and also partly because of the scale of change implied by the removal of the income offset, we do not consider that further environmental incentives could be made available on sufficient scale to alleviate the impact of removing the income offset on developers over a compressed time period. Therefore the change in income offset should be transitioned in over a number of years. For example, as stated in UUW's published 2021/22 statement of significant changes [8] we are already in the process of transitioning certain charges (where costs or pricing methodology has changed), with changes being phased in as part of managing annual changes in developer charges within 10%. Given the large regional differences in income offset offered, we recommend that transition periods would need to be

[8] https://www.unitedutilities.com/globalassets/business-services/statement-of-significant-changes-to-new-connection-charges-21-22.pdf

different between companies, to ensure that developers in some regions do not have to accommodate higher annual increases in charges than developers in other regions.

We consider that it is only reasonable to commence transitioning removal of income offset from the start of AMP8, and for those transition arrangements to be reflected in PR24 determinations.

We note that Frontier Economics views the economic rationale for the income offset as weak. However, the economic rationale for removing it mid-AMP7 would also be similarly weak. The income offset has been included as part of a "single till" Price Control set out in the PR19 final determination. Any significant change to it within AMP7 would (effectively) change the balance of "fast cash" and "slow cash" recovery of revenues, towards "slow cash" to the detriment of AMP7 financeability. If removal of the income offset had been planned by Ofwat as part of PR19, this could have been accommodated via commensurate adjustments to PAYG and RCV run off rates. We would therefore consider that any ex post transition of income offset in AMP7 to be retrospective regulation, which would undermine the integrity of the PR19 price determinations, and the related financeability assessments.

Balance of Charges

We acknowledge as part of the consultation Ofwat is proposing to make changes to the charging rules for companies to better support effective incentives for more sustainable developments. This may mean that companies could replace (at least some of) income offset contribution with environmental incentives.

UUW is already demonstrably committed to supporting effective incentives for more sustainable development - therefore, in practice we consider there will be little opportunity to replace the income offset with environmental incentives in maintaining the balance of charges through to 2025 for the following reasons:

- UUW already has environmental developer incentives in place for water efficiency and for no surface water connection to the public sewer. As such, UUW cannot easily replace the income offset with the introduction of environmental incentives as we currently already offer both. The value of the income offset is about £25m per annum compared to £4m for existing developer incentives.
- We do not see any way in which environmental incentives could be significant enough to replace income offset under the current regime. The value, and scale, of the environmental incentive we could offer does not come close to that of the income offset. From UUW's experience, we would only expect take-up of environmental incentives to be between 10%-25%, compared to 98% of water connections that would benefit from income offset. We have already implemented one of the most progressive sets of incentives in the industry and room for expansion may be limited. There certainly appears to be insufficient room for expansion to mitigate loss of income offsets.
- Since introducing environmental developer incentives from 1 April 2018 around 58,000 planned connections out of 197,000 planned connections from developments have been accepted onto the water scheme and have the potential to benefit from the reduced rate water infrastructure charge as those developments are built out. The equivalent for wastewater is around 44,000 connections out of 194,000. We have observed an increase in take up of the incentive from 23% in 2018/19 to 31% in 2020/21 for water. Take up for the wastewater incentive has remained at around 23%, largely reflecting the high proportion of developments that will still connect to the public sewer for surface water.

- In the three years to 31 March 2021 a total of around 20,000 connections have benefited from the reduced rate water infrastructure charge and 15,000 connections from the reduced rate wastewater infrastructure charge.
- Moving from an income offset payment to additional environmental incentives won't necessarily result in a one to one correlation across all developments, this could result in variable levels of contributions by UUW in a given financial year, and therefore variable impacts on the cost to developers.
- The size of UUW's income offset far outstrips the environmental incentives package that we would be able to offer based on our experience of the take-up of various incentives which we already offer and those which we are considering.
- Varying levels of contribution will result in incidence effects for developer customers across different development types depending on take-up levels and/or meeting the incentive criteria in the short term. UUW will need to carefully manage such incidence effects.
- Any changes to charging rules need to be communicated sufficiently in advance to developer customers – we are frequently told by developers and their representatives that they requires at least two years notice prior to implementing significant changes to charges. This to ensure that the viability of existing planned developments is not undermined by unforeseen changes to charges.

From the discussions we have had with some key developers and their representatives (e.g.: the Home Builders Federation) we expect that there will be a significant degree of concern amongst Developers, SLPs and NAVs about both the increased upfront costs which removal of the income offset will lead to but also – significantly – any suggestion that there should be a rapid transition to such charges during AMP7. Despite the engagement we have had with these stakeholders, we are uncertain as to how many of them will be able to respond to Ofwat's consultation in the time available or, indeed, whether there is sufficient awareness amongst these stakeholders of the impact that this regulatory action might have upon them. This is particularly the case given that neither the Frontier Economics report nor Ofwat's consultation provide a clear impact assessment or quantification of the proposed changes for stakeholders in the North West. Before Ofwat proceeds to make a decision, we consider that it is important to take account of the views of these customers and stakeholders about the potential ramifications of Ofwat's proposals and the consequential impacts for them. To the extent that this is not provided to Ofwat as part of the usual consultation channels, then it is incumbent on Ofwat to try and take account of the impacts through an impact assessment for the region in order to inform its decision making.

We note that Ofwat is considering whether to have a requirement of more bespoke infrastructure charges in England for some of the most remote developments. The proposals include that the infrastructure charge would be published but the charge would be set according to cost drivers (such as length of network reinforcements required).

We welcome that Ofwat is not proposing to prevent companies setting simple infrastructure charges for most developments; our stakeholders have indicated that this is their preferred approach.

As stated in our response to effective markets[9], we are committed to ensuring that the infrastructure charges set are reflective of costs. We are continuing to review whether there is justification for implementing zonal infrastructure charges. We are assessing our forecast network expenditure projects to determine whether or not there is sufficient evidence to support the introduction of zonal charges (i.e. if there is any robust and reliable evidence of geographical variations in required expenditure).

[9] https://www.ofwat.gov.uk/wp-content/uploads/2020/01/FP_UUW-Response-FOR-PUBLICATION.pdf, page 56-58

We acknowledge that there may be benefits in setting differential infrastructure charges for a small proportion of sites, such as those in remote locations, away from the existing sewerage network, and that this could provide a price signal to allow a NAV to offer a lower cost solution.

We consider that further work is required to define what is meant by "remote" location before such a requirement is introduced in order to mitigate incidence effects on developer customers. The introduction of parameters will always result in customers falling one side of the boundary. We are happy to engage with Ofwat on the development of this definition. We recognise that it will take time for companies to assess and gather the evidence required to support the introduction of differential infrastructure charges.

Careful consideration needs to be given before the introduction of differential infrastructure charges due to the added complexity this may have on charges and the potential move away from simple, stable and predictable charges that developer customers tell us that they value.

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?

UUW considers that water companies should offer developers and NAVs environmental incentives that encourage development built to the best environmental standards in terms of water efficiency and reduction of surface water drainage. Any incentives should drive behavioural change, and be offered only where the development exceeds minimum requirements.

In recent years UUW has introduced a number of schemes designed to incentivise both developer and wholesale customers who demonstrate good environmental practice.

We are supporting developers, SLPs and NAVs. For our developer customers we have introduced:

- A reduced water infrastructure charge for those building properties with water efficient fittings and fixed appliances.
- A reduced sewerage infrastructure charge for those properties that are built with no surface water connection to public sewer.

We continue to review the incentives for sustainable developments as part of our annual process in setting and reviewing new connection charges. We want to continue to ensure that the scheme for reduced rate water and wastewater infrastructure charges continues to offer the appropriate incentive to drive the right customer behaviour, is cost reflective and delivers expected benefits in relation to sustainable development. We continue to seek feedback from stakeholders on the incentive schemes we offer, ways to make the scheme more effective and encourage the right customer behaviour.

In relation to other wholesale charges (for non-household customers) and NAVs in our region:

- UUW has also introduced an incentive scheme for non-household customers who drain surface water from their site through a sustainable drainage system, providing an opportunity to make savings in their surface water charges.
- We offer a water efficiency incentive to support retailers assisting non-household customers to make water efficiency interventions on their sites.

As UUW already has environmental developer incentives in place for water efficiency and for no surface water connection to the public sewer, we cannot easily replace income offset with the introduction of environmental incentives as we currently already offer both.

As stated in our response to question 2, UUW is committed to supporting effective incentives and we continue to review our approach to sustainable developments to align with our longer term strategy. We shared our long term strategy to reduce water consumption by 2050 to 110 litres per person per day in the

North West of England in line with the National Water Framework Directive with key developer stakeholders in 2020. Following this engagement we changed the criteria for the reduced rate infrastructure charges for water for new schemes entered into from 1 April 2021 for properties being built to use 110 litres per person per day or less to 100 litres per person per day or less.

We are currently considering introduction of an incentive for developments where surface water drainage is reduced by use of a suitably designed and maintained sustainable drainage system.

Before introducing environmental incentives careful consideration needs to be given to the design of the incentive scheme and the ability to provide a longer-term commitment to the incentive scheme. We discuss each of these in more detail below:

Design of incentive schemes for new development

A challenge when designing environmental incentives for new development is the evaluation of the long-term benefits in order to determine a precise value. This makes it difficult for incentives to be definitively cost reflective.

Stakeholders consistently tell us that the type and level of incentives that we can offer are not enough to lead to the significant changes required to make a real difference to priorities and behaviour. They report that the main driver of their behaviour is the planning regime. Consideration must be given to employing a more holistic, multi-agency response to tackle this issue.

This may result in the need for price-signalling behavioural incentives rather than cost reflective incentives. A move away from cost reflectivity requirements in this area would be helpful due to the difficulty in evaluating outcomes of environmental incentives, by reason of their multiple inputs.

In our view, the automatic right to connect surface water to the public sewer should be reviewed.

Water and sewerage companies have no power through the Water Industry Act 1991 to:

- ensure the hierarchy of drainage options for the management of surface water is fully investigated;
- secure the delivery of sustainable drainage techniques; and control the rate of surface water discharge to the public sewerage system.

This power rests with the planning system. It is therefore essential that we have a planning system which is responsive to the challenge of climate change through a regime which insists on:

- a thorough assessment of the options for managing surface water on new development sites; and
- the incorporation of high quality sustainable drainage on new development sites which is multi-functional and integrated as part of a green and blue environment.

In designing a scheme, consideration must be given to its practical application. Any scheme must be administratively simple, to avoid unnecessarily onerous administration and costs for either water companies or developers. Ideally water companies would be able to benchmark against clear national standards in order to ensure that any incentive scheme is transparent and predictable, to enable fairness and consistency of application across all developer customers.

We want to continue to ensure that UUW's scheme for reduced rate water and wastewater infrastructure charges continues to offer the appropriate incentive to drive the right customer behaviour, is cost reflective and delivers expected benefits in relation to sustainable development.

A longer term commitment to environmental incentives

We consider that developers would value a longer term commitment to our environmental tariff incentives, as this would help them to support the case for investment which is over the long term and does not match the time frame of the incentive that we are able to offer in the context of annual charges.

Whilst we are committed to continuing with environmental incentives, we are not in a position to provide any long term guarantees to customers, as they will ultimately be subject to annual review against Ofwat's charges scheme rules.

If we were able to provide certainty longer term, it would be helpful in supporting environmental benefits, which should also be a longer term benefit to customers. It also appears consistent with Defra's 2016 charging guidance to Ofwat[10] which states that charges rules should give equal weight to environmental protection – and, of particular relevance, it states (page 10 section 2.9) : "*In this context, the Government recognises that innovative tariff structures can send positive price signals and improve economic and environmental efficiency*".

Whilst we are supportive of, and committed to, further environmental incentives in relation to developer services charges and other charges, we consider that real progress can be made through legislation.

An example of this is in relation to delivery of water efficient new development through a new national standard in Building Regulations. In our response to Question 16b in the consultation on "Planning for the Future (White Paper August 2020)" we acknowledged that whilst water companies are developing supply-side solutions, much more must be done to reduce the demand for water. We consider there should be clear requirements to ensure new development is water efficient at a national level reflecting the long term water supply challenge that is presented by climate change. We consider, however, that this should be secured via the incorporation of new water efficiency standards and processes in Building Regulations which should be subject to regular review rather than through a reliance on the incorporation of an optional standard via the planning system. We consider that the Building Control regime is better suited to the incorporation and assessment of water efficiency standards in new development.

We have already implemented one of the most progressive sets of incentives in the industry and consider there to be limited opportunity for further expansion of environmental incentives to serve – in the near term – as a mitigant for removal of the income offset.

[10] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/496044/charging-guidance-ofwat-2016.pdf