

Consultation on Environmental incentives to support sustainable new homes

Severn Trent response

July 2023

WONDERFUL ON TAP



Summary of response

We welcome the opportunity to respond to the consultation on Environmental incentives to support sustainable new homes.

We are supportive of evolving the charging rules to further support the provision of discounts/credits to those developer customers who deliver more sustainable developments.

Specific comments in respect to each of the questions are contained within this document. Should you require any further information please do not hesitate to contact me.

Dawn Quinn
Regulation and Compliance
Developer Services

Response to detailed questions

Q1: Do you agree with our proposed aim for environmental incentives?

With the increasing pressure of population growth, economic development and climate change it's imperative that all industry stakeholders work collectively to design effective environmental incentives that encourage the building of sustainable new homes.

We therefore agree with incentivising environmental improvements and believe that there needs to be autonomy for companies to innovate and individualise, e.g., through the use of trial technologies.

Q2: Do you have any comments on the characteristics of good environmental incentives?

We agree that the following characteristics, as referenced in Figure 2, are important in determining environmental incentives that will result in greater water efficiency and / or more sustainable drainage across all types of new development and provide for a level playing field:

- Transparent, stable, and fair – incentives must be affordable to companies, self-funding, attainable, and evidenced as beneficial to ensure of take-up.
- Trust and confidence - the process, to include requirements and timelines, needs to be clear from the outset with ease of understanding so all customers can engage and benefit.
- Accessible to all – everyone who can demonstrate their contribution to having built sustainable new homes that reduce demand for the long term should be able to benefit from the incentives, within the companies' budget allowance.
- Compliment wider policy – it is important that customers are rewarded where they have gone above and beyond the standards mandated by Government and planning/ building control requirements.
- Support Innovation - it's important that incentives allow for and encourage innovation, enabling companies and customers the flexibility to readily test and respond to new technologies.

We would suggest that the latter is critical, and the inclusion of a company bespoke element would support this.

Q3: Do you have any comments on the extent to which any environmental incentives could or should be adapted for implementation in Wales?

We believe that it is important to encourage the building of sustainable new homes across both England and Wales.

The practicalities of effectively funding environmental incentives for a small company such as Hafren Dyfrdwy is an important consideration.

Q4: Do you have any comments on the case studies outlined?

There is a genuine opportunity for continued collaboration and shared learning in this space, – pooling experience, knowledge, and insight for the greater good. The industry working group have an opportunity to provide all developers, with clear and helpful guidance of what is possible and how they could achieve it.

We support the view that a move towards mandatory water efficiency labelling for water fittings would improve the simplicity of the fittings approach and be the best solution for ensuring household water efficiency in the longer term by influencing buyer behaviour and driving cost effective product innovation. We believe that customers would prefer a fittings approach - where developers specify devices and appliances within certain flow rates and volume limits - rather than using a calculation approach.

Q5: Do you have any comments on our proposed standardised incentive tiers?

We can see the logic of the three-tiered approach, coupled with a bespoke element, allowing for individualisation and innovation.

We believe the individual tier qualifying details must be clarified to include, for example, the need for tier one to exceed the minimum building regulations / planning policy standards. As all developers will contribute to funding the environmental incentives it is important that the funds are well utilised and that the incentive values are effective in encouraging developer customers to invest in the delivery of long-term sustainable solutions and that those sustainable solutions do indeed reduce long-term demand on water networks.

In terms of SUDs, we believe it will be important to provide further clarity within each tier, for example should no connection to the sewer be tier two. Where would permeable paving feature? Is there further detail required relating to household and no-household properties? We suggest that this could be effectively worked through by the NCC industry working group with support from industry stakeholders.

We would also welcome further engagement on proposed minimum values to include, for example, developer customers and the HBF because it needs to be both affordable for companies and attractive to developers.

Q6: Do you have any comments on our proposal for a common methodology / technical standard to assess water efficiency?

We would potentially be supportive and are keen to explore a common methodology approach where it allows for innovation and flexibility to evolve quickly.

We suggest that this is an area that industry technical experts and the NCC industry working group can support on.

Q7: Do you have any comments on the details of our proposal for companies to offer bespoke incentives?

We believe that as new technologies develop, it's important to ensure that companies have the ability and flexibility to try new things, respond to local developer suggestions, be creative and adaptive in-year. Enabling in-year agility may require a differing approach to the annual timeline imposed through the current charging rules.

Bespoke incentives will allow companies to differentiate where relevant to do so.

We agree that industry level insight is likely to be beneficial in shaping the framework over time and therefore support transparent reporting of data on incentives by companies. Our desire is that this is made as simple as possible and is not burdensome or costly to collate.

Q8: Do you have any comments on the potential for reputational incentives?

We like the thought of a developer reputational element. The process for managing this would need further exploration to ensure that this is based on the demonstrable compliance of a successfully completed whole development.

We also recognise that developers are likely to focus on what matters most to their end customer – the homebuyer – whereby affordability and timescales, rather than water efficiency and environmental credentials, are primary considerations in home purchasing and determine how developers market their properties.

Q9: We seek views on how the process for agreeing and paying environmental incentives might best be organised in practice, and whether this is consistent with existing developer services processes.

We feel that it is important to ensure that incentive payments / credits are driven by an assured outcome.

A simple stepped process could work in practice, and we would prefer a common industry approach, such as the Codes for Adoption Model Water Adoption Agreement.

We agree that the process could commence by entering into an upfront agreement with developers with deferred infrastructure payments. There would need to be an agreed timeline for assurance to be undertaken before the homeowner moves in. Following a demonstrable outcome, in line with the upfront sustainable incentive agreement, the developer would then receive and benefit from the incentive and settlement of the deferred infrastructure payment.

D-MeX acts as both a reputational and financial incentive and we do not feel further specified metrics are necessary to ensure that companies allow for efficient payment of environmental incentives.

Q10: Do you have any comments on how high levels of compliance with the incentive technical standards might best be achieved?

It is evident from the case studies and our own experience that an audit process is necessary to ensure that incentives are being complied with and that the long-term intended benefits are realised. This process can be costly and as such we suggest that this area requires further consideration. Either the burden of proof sits with companies, or it sits with the developer customer. Where companies undertake extensive assurance could the associated costs be recovered through the scheme's revenue pot pre distribution or, simply be included as a cost to be recovered through developer charges. We are keen to keep costs to a minimum, maximise the incentive to ensure it is attractive and thereby support the development of sustainable new homes.

Innovation may also play a part in terms of remote video technology that could reduce costs and support a demonstrable assured outcome.

There are several options that would benefit from further exploration, and we suggest that this is an area the NCC industry working group can support on.

Q11) Do you have views on whether environmental incentives are best funded as an environmental component of the infrastructure charge or as a separate charge?

We see the logic of including the environmental incentive as part of the infrastructure charge and in keeping charges to developers as simple as possible. In our view, the environmental component of the infrastructure charge should be made clear to developers on their bills.

As the new environmental incentives are introduced it could take time for their effects to settle down and large imbalances might result, which could lead to unstable charges. We think it is important to maintain flexibility for companies as they introduce environmental incentives to help them avoid imbalances through adjusting the level of the environmental component, adjusting the value of the incentive offered and adjusting the qualifying criteria. Eventually we want all three of these aspects of the incentive to become stable to give more certainty to developers and increase the power of the environmental incentives.

Q12) Do you have any comments on our proposal for guidance issued under the charging rules and how they are developed and maintained?

We are supportive of the NCC industry working group developing guidance on methodologies and technical standards to provide some consistency across water and wastewater companies. This should help developers who deal with multiple companies.

This common approach worked well in relation to the common terms and worked examples now used for developer charges and we support all companies including environmental incentives within their worked examples to provide transparency.

Q13) Do you have any comments on our approach for managing interactions with the regulatory framework?

We recognise that environmental incentives contingent on the properties continuing to be water efficient are more beneficial because they will encourage ongoing reductions in water consumption and discharge volumes. However, against this must be balanced how attractive an ongoing monitoring requirement for the incentive, presumably after the properties have been sold, would be for developers.