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Dear Ofwat,

RE: Consultation Response: Environmental incentives to support sustainable new homes

Thank you for the opportunity to respond to the consultation on developer incentives. Driving down water demand is of utmost importance in the East of England, as it is amongst the driest part of the England area and has the fastest population growth.

Developer environmental incentives are something Anglian Water has been interested in for some time, including previously establishing our own water efficiency incentive in 2018, which has subsequently ended. We have also watched Thames Water's recent developer incentive scheme very closely, regularly discussing progress and take up with them. We have provided response to this consultation with the views and inputs from numerous colleagues within the company, as well as discussing this consultation with some of our key developers and competitors, to ensure our response is realistic and deliverable. Please see our response to the consultation questions below.

Our response is generally supportive of the aims and purpose of the consultation. However, we would like to emphasise several key points that are particularly important:

- Any water company/developer incentives must be linked to a wider Government action;

- We propose starting with a simpler scheme, with only one tier, would be beneficial as lessons can be learnt and incorporated into expanded schemes in the future;
- Ofwat should consider combination of benefits (combined water & wastewater incentive);
- The interaction with cost reflectivity if incentives are linked to infrastructure charges; and
- Funding needs to be considered further due to complexity of balancing costs and revenues between activities outside and inside the price control, particularly in absence of the current Developer Services Revenue Adjustment mechanism (DSRA).

We are also very interested in how water reuse can form part of the water efficiency solution but appreciate there are still some significant issues related to dual supplies and maintenance which will need to be explored at government level. Linked to this, we are confident that the work we are doing through our Enabling Water Smart Communities (EWSC) project will provide valuable insights that will help shape future environmental incentive schemes for all water companies.

If you have any further questions about our response or would like to meet with us to discuss our response, please get in touch with us via public.affairs@anglianwater.co.uk.

Yours sincerely



Head of Non-Household Market Services
Anglian Water

1. Do you agree with our proposed aim for environmental incentives?

We agree there is a clear need for homes to be more sustainable as increasing growth, climate change and environmental drivers contribute to increasing pressure on available water resources and the natural environment. It is also important that all new growth, including non-domestic, should also aim to be more sustainable and water efficient.

We agree that environmental incentives offered by water companies could help contribute to a change in behaviour and construction of sustainable growth. A national framework would signal the importance and provide developers with stability and continuity they need to roll out water efficiency at scale and pace.

We welcome an environmental incentive for developers, but any incentive needs to be used as a part of a wider suite of water efficiency policy measures outlined in the Water Efficiency Roadmap in the Environment Improvement Plan, (for example, water efficiency labelling and enacting Schedule 3 to revoke the automatic right to connect). We also think that ambitious action on water efficiency within the new build housing construction sector is needed to ensure water demand is reduced in line with the Environment Act's 20% reduction target, and developer incentives are an important part of this transition.

1. Do you have any comments on the characteristics of good environmental incentives?

We broadly agree with the characteristics laid out in the consultation; however, we have noted below our addition that we feel should be considered;

“Complement wider policy” - we consider that good environmental incentives should not only complement current legislation but should transcend the current planning requirements and seek to further enhance the development through incentivising additional benefits. For example, an incentive for implementing Sustainable Drainage Solutions (SuDS) should steer developments to use high quality, multifunctional SuDS that will offer benefits to the community and the environment (i.e., reducing both consumption/ water use and discharges /flooding), and not necessarily just meeting minimum National Planning Practice Framework (NPPF) requirements (of having SuDS on major developments). On this note, we suggest the framework should combine targets so that they are not separating water or water recycling benefits - i.e., no need for water or water recycling only incentives. However, we caution that this may not work in practice where some regions water and water recycling services are served by two cross-boundary water companies, as well as New Appointments and Variations (NAV's). In addition, this may cause further issues if environmental incentives are considered alongside water and wastewater infrastructure charges.

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

From a developer perspective we can see how an incentive which also applies to Wales would be beneficial, but this would need to align to the local legislative and policy landscape.

3. Do you have any comments on the case studies outlined?

In line with the Thames Water case study, we support a fittings-based approach and support moving away from assumptions around water use behaviours. We believe that it is not only a more robust approach to substantiating the water efficiency of the property but also potentially simpler to monitor adherence. When water labelling is eventually introduced, (something we are highly supportive of) then this can be easily incorporated. The water label will have the additional benefit for future occupiers of the property, helping to educate and enhance awareness of what level of water efficient fixtures and fittings are present in the home, hopefully encouraging them to purchase the same or better rated replacements as and when required.

In relation to United Utilities approach to 'audit' within their scheme, we believe that the national framework should consider companies administration costs associated in the management and audit of the schemes they offer to ensure the schemes remain "transparent, stable and fair"; noting that these audits helped identify the significant % of failure rate causes.

We also comment on an extract of the consultation, that references that the "incentives paid to a developer reflect the value to the company of reduced stress on its network", however not only will the non-incentive homes undermine the scheme but is also very difficult to calculate directly against incentives. It is likely that any saving achieved for reducing stress on the existing network will not translate to a sufficient incentive for developers to implement further water efficient technologies on their developments. Furthermore, any initial reduction of stress on the network may be eroded over time as occupiers are not compelled to retain fixtures and fittings. We also note that efficient use of resources by occupants may reduce the impact of new developments, but eventually assets will reach capacity and if population growth is sustained the need to invest to increase capacity has only been deferred, not removed.

To ensure that these network benefits are retained this environmental incentive would need to be supported by something akin to a Per Capita Consumption (PCC) limit on homes.

As referenced in the consultation, the current take-up of environmental incentives is disappointingly low, and we are keen to work with our developers to understand what type/value of incentive would increase their take-up of schemes. The initial feedback we have received is that current incentive values are too low, and incentives may be valued based on

the cost to install a more water efficient technology and subsequently, and therefore the surcharge would need be linked to this funding.

We are about to embark on a piece of work that will build upon the findings of the WRc case study (3.9.1) with plans to undertake measurements at 280 new homes (1% of our region's annual housing growth) to assess compliance with the 110 l/p/d policies that have been adopted across our region. Where developments are found not to meet the required PCC we will then work closely with the developer to address their procurement of fixtures and fittings to enable their future developments will deliver the required 110 l/p/d or less.

Finally, we would like to comment on our own experience with our environmental incentive schemes. In 2018-2020 we offered a scheme whereby developers received a discount on their water infrastructure charge if they achieved a property with a water efficiency of less than 110l/p/d. In practice, consistent with feedback received from other water companies, we had very little uptake of the scheme, despite numerous local planning authorities having existing policies to meet 110l/p/d. In addition, where we did have applicants, we found that very few properties were considered to have met the criteria once audit was carried out, based on a water calculator approach. We also experienced criteria issues; i.e. whether the scheme was agreed at the stage of requisition or plot connection, leading to confusion when the scheme was withdrawn. Three key lessons learnt as a result of this scheme, which has contributed to why we have been cautious about releasing a subsequent water efficiency scheme:

1. The audit principles need to be considered
2. The permanency of water efficient technology should be considered
3. The funding and parameters on scheme duration needed to be robust

Since 2020, we offer a wastewater environmental discount scheme, which discounts 50% of the water recycling infrastructure charge, for those schemes that sustainably remove surface water, where a previously confirmed connection to a foul or combined water exists. We are also focussing on our Enabling Water Smart Community's (EWSC) project and monitoring any early indicators that may contribute to successful environmental incentive schemes in the future for developers very closely.

4. Do you have any comments on our proposed standardised incentive tiers?

Although we think the proposed tiered approach has merit, our main concern about the tiers, as they stand, is whether it will drive the level of traction from developers that we need in water stressed areas. We are acutely aware that the take up of the Thames and Southern schemes is low and has limited take up with larger developers.

Therefore, our current preference is to set, one, ambitious and appropriately incentivised target to drive a high level of engagement from developers. Our suggestion is to incentivise developers to achieve an ambitiously low PCC level, for example 80 l/p/d, and offer a

significant payment, high enough to attract developer take up. Our reason for selecting an ambitious 80 l/p/d target is that this aligns with the old Code for Sustainable Homes Levels 5 and 6, and Greater Cambridgeshire's Draft Local Plan. To achieve this low PCC, it will not only require some form of water reuse, which we are keen to promote, but will also heavily reduce wastewater flows to the drainage network.

Using this approach, we may need to consider limiting the incentive scheme to a certain number of properties to ensure revenue neutrality. Furthermore, by limiting the scheme it would also allow us to suitably plan the staffing resources required to undertake early engagement at design stage, providing value to the customer and ultimately ensure the success of the scheme.

We also feel that having a more ambitious water efficiency scheme, with an attractive incentive, would ultimately drive developers to consider multiple strategies and technologies on their developments that have combined benefits to both the water and water recycling network as well as the community, environment and future occupants. By having a combined scheme, we are also not being prescriptive over how developers must meet this requirement, allowing flexibility and promoting innovation.

We do not believe that having minimum values within the common framework ensures that incentives are calculated based on benefit to the network, nor can be managed adequately through the corresponding funding, particularly for the bronze incentives, which are already consistent with the majority of our existing policy requirements, it is debatable whether achieving this should be rewarded. In addition, having such a large framework, that must be revenue neutral, adds unnecessary complexity.

Anglian Water are keen advocates of SuDS and actively engage with developers at present around how best to integrate them into their sites. However, we are less supportive of the suggested ongoing incentive for SuDS, as there is a requirement for all major developments to include SuDS already. Additionally, with the proposed enactment of Schedule 3, of the Flood and Water Management Act, this looks likely to become a requirement of all developments and therefore we do not believe that developers should be provided with an incentive for something that will be required under planning. That said, we may be inclined to incentivise the integration of the site's SuDS with stormwater harvesting for onsite reuse, as despite reuse being at the top of the drainage hierarchy it is still regularly overlooked, often on financial viability grounds. The inclusion of an incentive linked to this could be beneficial, although it could be argued that this would be encouraged in any case through incentivising a low PCC target, as reuse would be required to achieve this.

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

We agree that we would like to see building regulations move to a fittings-based approach linked to a mandatory water efficiency label and the incentive standards to mirror this. This removes the assumptions surrounding behaviour and occupation.

We agree that, to ensure adequate delivery of water efficiency, interventions and incentives enforcement is essential. As has been outlined by the WRc research, a lack of enforcement has led to a very low water efficiency performance of new houses and very high number of properties not meeting the standard. Therefore, initial compliance and ongoing assurance is necessary and should be carried out by a comprehensive programme of inspections.

We agree that codes for adoption agreements should consider environmental incentives to ensure that any adoptable infrastructure meets an appropriate technical standard and that any additional benefits being driven through environmental incentives do not lead to the increase in proprietary products being used and included in adoption agreements.

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

We agree with the inclusion of bespoke incentives, such as smart water butts and SuDS that go beyond conventional attenuation. We agree that this provision might enable innovation and promotion of wider environmental benefits at a regional level.

7. Do you have any comments on the potential for reputational incentives?

Generally, we support the idea of a reputational incentive for developers and agree that this would be attractive to larger developers to enhance their reputation. We also expect that this additional form of incentive, in conjunction with a financial incentive, would help drive behaviour toward building more sustainable developments.

We are, however, unsure of the practicalities of how it will be run and the potential associated cost to operate such an incentive scheme. We also must be sure that any reputational incentive does not have adversely impact one type of developer over another, for example small and medium developers versus a large national developer that may have more supply chain influence or resources.

8. 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 agree that as part of the characteristic to have 'trust and confidence', the scheme needs to address the impact for developers to commit to designing additional water efficient technologies into their builds, yet allow water companies to validate the evidence, post construction, prior to making payment.

We don't support the principle of awarding incentives early on in a development, which might span for many years, before the development is finished and the water efficiency of the properties assessed. However, we would support an early agreement of payment with a fixed timeframe, where the agreement is time bound for a maximum of 5 years, or within an Asset Management Plan (AMP) period.

We also think the D-Mex calculation should be minimal as the scheme is intended to be revenue neutral. Therefore, the total revenue calculation for each water company should be broadly in line with its revenue pre-implementation of the scheme. In addition, we feel that this point should be considered in line with any proposed changes being made as part of the *Ofwat Consultation on the measures of experience performance commitments at PR24*, published July 2023.

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

We feel very strongly that any incentive scheme needs to have a reliable enforcement programme. We agree that a percentage of audits based on the number of sites makes sense, with the percentage increasing with repeat failures. The cost of providing evidence of compliance should be considered further. A centralised and common approach perhaps through a national portal to allow evidence to be submitted could be created, or a separate independent organisation to carry out audits on a national level.

10. 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 have considered the mechanics of aligning the environmental component as part of the infrastructure charge and would like to address two issues:

Firstly, that the environmental incentive discount, and subsequent surcharge, may not be directly related to any financial benefits to the company and should reflect environment benefits. In addition, they may be calculated as a combination of this, and an additional incentive toward the contribution of a sustainable technology, fixture or fitting, used in order to achieve a water efficiency target, consequently this portion of the infrastructure charge, if linked, should be exempt from any cost reflectivity principles.

Secondly, that if incentives are linked to infrastructure charges, this may lead to confusion in addressing scheme benefits that the technology used could encompass a combination of benefits to both the water and water recycling network. For example; water reuse, through grey water recycling, both lowers water supply demand and water recycling needs.

We agree that the environmental component needs to be considered so that it is available for all developers to contribute; either as an incentive or surcharge.

We would also like to comment on figure 6, proposed mechanism for funding environmental incentives for developers from April 2025, in relation to the spread of surcharge amongst all customers. We feel that smearing surcharges, on top of the infrastructure charge to all customers, is not only counter to the cost reflectively principle by inflating the infrastructure base charge, but it also lessens the discount offered to companies wishing to take up the incentive, diminishing potential viability and uptake of the scheme.

The 'simple model' outlined is unlikely to be simple in reality, as water companies have hundreds of sites to balance, some charges being paid on current charging regimes. We must ensure that the benefit of introducing this scheme is worth the cost and effort and perhaps an impact assessment should be considered prior to introduction of the scheme.

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

Guidance can play an important part in setting principles, promoting transparency and setting expectations, but if the rules are too restrictive, they take away the potential for new and innovative ways of working. A balance between the two must be found.

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

We agree with the logic that as the incentive is standardised across the country there should be a relatively equal impact across water companies, therefore omitting it from D-Mex at this stage makes sense.

Finally, we would like to comment on the reputational impact to water companies through D-Mex. Although the common framework imposes conditions on all water companies to provide incentives, and subsequent surcharges on non-water efficient homes, the proportional impact may not be equitable across all companies due to the potential difference in surcharge value. We feel that offering a simpler, more directed scheme, such as our proposed 80 l/p/d, would limit the liability on non-water efficient applicants. The additional spread of developments, ineligible for the scheme, would also limit the impact to smaller, one-time developers/ customers that do not have the resource or economies of scale to incorporate sufficient environmental technologies to meet even the bronze level referenced in the proposed common framework.