

January 2024

Environmental incentives to support sustainable new homes – conclusions

About this document

This document concludes our [June 2023 consultation on environmental incentives to support sustainable new homes](#).

We are grateful for the number of engaged responses we received to our consultation. We welcome both the support for our proposals and also the constructive comments which highlight the level of engagement from the range of stakeholders who responded.

Following an executive summary, our conclusions document is structured as follows:

- In chapter 1 we outline the background to our environmental incentives work, summarise the key proposals from our June 2023 consultation and provide a high-level summary of key responses.
- In chapter 2 we summarise the consultation responses to each of the thirteen questions we asked in our consultation and provide our view on the issues, having considered the responses received.
- In chapter 3 we outline relevant developments in areas related to our consultation.
- In chapter 4 we provide our conclusions to our consultation, detailing the key policies we intend to go live with in April 2025 and some proposals we are intending to amend following the responses received and subsequent engagement.
- In chapter 5 we briefly outline the next steps for our environmental incentives work.

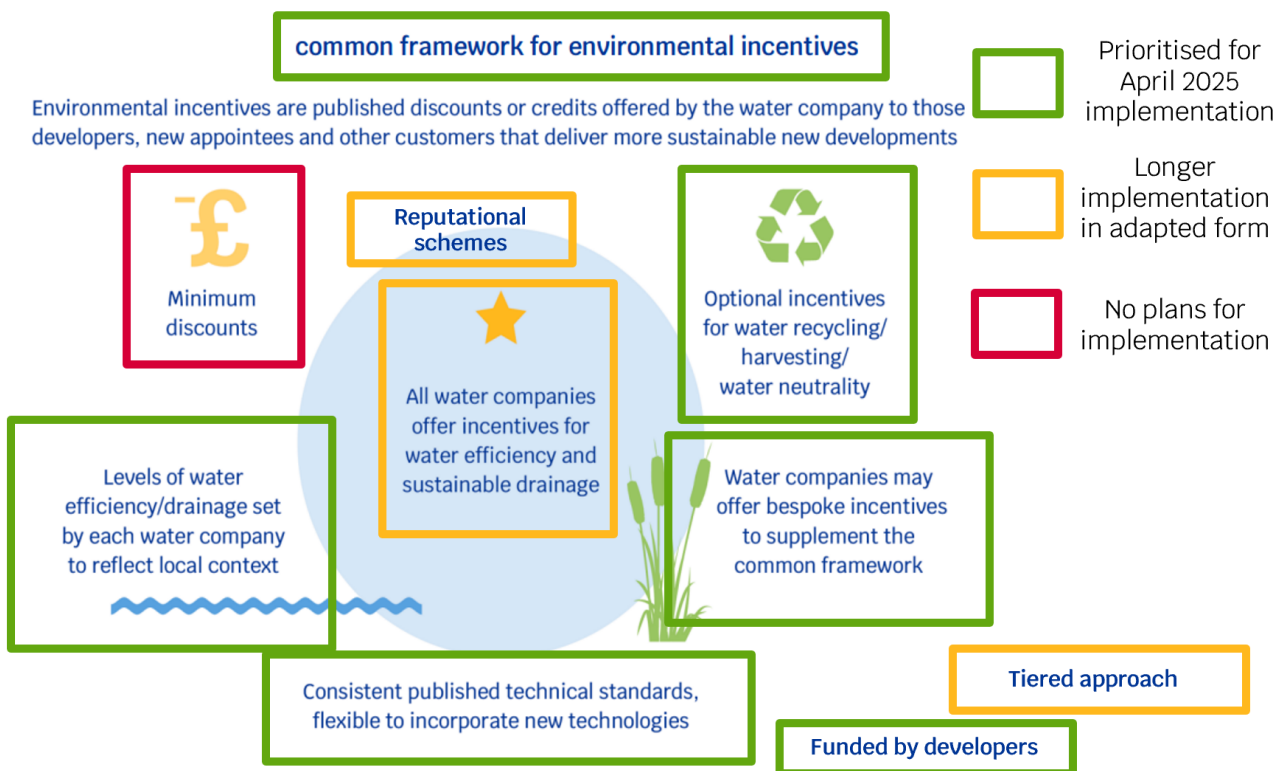
Executive Summary

In summer 2023 we consulted on our proposal for establishing a common framework for environmental incentives, through changes to our charging rules, with the aim that they result in greater water efficiency and sustainable drainage across new developments.

We are now confirming many of our proposals from our summer consultation on environmental incentives, reflecting the broad support we received in consultation responses for our work. In some areas we have decided to adapt our proposals based on constructive responses received and subsequent engagement with stakeholders.

Figure 1 below gives a high-level indication of which policies we are now confirming for April 2025 and which will be adapted or paused.

Figure 1: High-level overview of changes to environmental proposals for April 2025



We are now working with the sector to go live in April 2025 with a common framework for environmental incentives. A consistent approach for offering and applying for environmental incentives in England is at the heart of our incentive approach, as it can create a consistency for developers which has not to date been available to them when it comes to applying for environmental incentives between company regions.

We also conclude on our proposal that all companies will offer an incentive for achieving a certain level of water efficiency below what is required in building regulations, but will pause before mandating companies to offer an incentive related to surface water drainage. This is because we want to have more clarity on the scope of the implementation of Schedule 3 of the Flood and Water Management Act 2010¹ (**FWMA10**) before deciding our approach. In the short and medium-term companies would maintain the ability to offer incentives for sustainable drainage systems (**SuDS**) in their area, using bespoke incentives, and we encourage them to do so where appropriate.

Companies still have the option to offer incentives for water reuse schemes and water neutrality, but we have decided not to implement a tiered design of the common framework at this stage. This is to reflect the fact that, in existing schemes, there has been a low take-up to date of incentives for more ambitious levels of efficiency and there are unresolved issues around the regulation of water reuse schemes run and maintained by water companies (rather than by homeowners or estate managers).

We conclude that the incentive values should be meaningful in order to incentivise take-up and broadly reflect the expected benefits to water companies and the environment of a particular intervention but we are not mandating minimum values at this stage. This will ensure incentives are fit for purpose and gives companies increased flexibility, recognising that forecasting incentive take-up in the first couple of years of the scheme going live will not be straightforward.

We have established an environmental incentives working group, comprised of individuals from water companies, developers and other relevant stakeholders. The purpose of this group is to work collaboratively and collectively on behalf of the sector to agree the detail of the environmental incentive guidance that will sit under our existing charging rules. This group will make recommendations to us to help inform the detail of our proposals. We will consult on any changes to our charging rules in summer 2024.

¹ Legislation.gov.uk, [Flood and Water Management Act 2010 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2010/23/schedule/3), January 2024.

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1. Background

In June 2023, we consulted on our proposals for a common framework for environmental incentives, to be implemented through changes to our charging rules, with the aim that they result in greater water efficiency and/or more sustainable drainage across all types of new development, particularly new homes. We did this against the backdrop of water companies currently offering incentives for water efficiency and sustainable drainage to varying degrees but no coordinated effort to communicate with developers the incentives available to them.

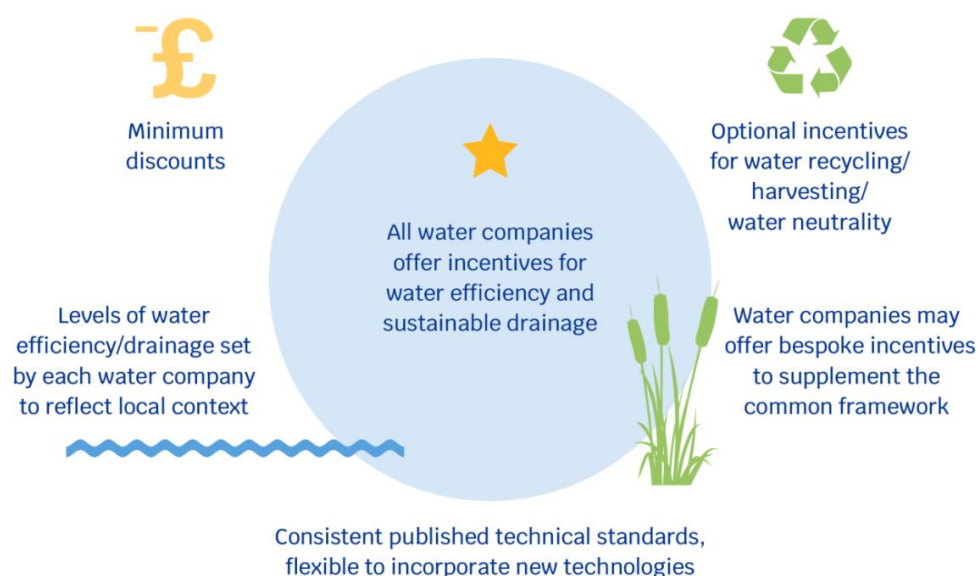
We consider that sustainable homes and developments bring benefits to:

- homeowners, who benefit from lower water and energy bills;
- the environment, by reducing the risk and impact of water scarcity and improving biodiversity;
- society, as less water is being used than would have been previously;
- manufacturers of water efficient fixtures and fittings, as incentives will likely stimulate demand for their products;
- water companies, thanks to reduced stress on their networks and lower operating costs.

1.1 Our June 2023 consultation

Our June 2023 consultation set out our proposals for what we viewed as an ambitious but achievable common framework for environmental incentives from April 2025. Some of the key policies from this are outlined in Figure 2 below.

Figure 2 – Our key policy proposals from our June consultation



1.2 Summary of responses

We received 37 responses to our consultation on environmental incentives for new homes, including from 15 water companies, three developers, two new appointees and a number of other interested stakeholders. We provide the full list below.

- Anglian Water Services Limited;
- Dŵr Cymru Cyfyngedig;
- Northumbrian Water Limited;
- Severn Trent Limited;
- Southern Water Services Limited;
- South West Water Limited;
- Thames Water Utilities Limited;
- United Utilities Water Limited;
- Wessex Water Services Limited;
- Yorkshire Water Services Limited;
- Affinity Water Limited;
- Portsmouth Water Limited;
- South East Water Limited;
- South Staffordshire Water Plc;
- Sutton and East Surrey Water Plc;
- Stormwater Shepherds;
- London Borough of Tower Hamlets;
- The University of Sheffield;
- UK Rainwater Management Association;
- Hilson Moran Partnership Limited;
- Jets Vacuum AS;
- National House-Building Council (**NHBC**);
- Barratt Developments Plc;
- Waterwise;
- Artesia Consulting Limited;
- Keepmoat Homes Limited;
- Leeds City Council;
- Independent Networks Association;
- Independent Water Networks Limited (**IWNL**);
- ESP Water Limited;
- Water Regs UK Limited;
- Vistry Group Plc;
- The Consumer Council for Water (**CCW**);
- The Housing Forum Limited;
- West Sussex local authorities (coordinated response);
- Home Builders Federation Limited (**HBF**);
- Skewb Limited.

Key themes

There was broad support for our ambitions and proposals in the round, as well as constructive comments where responders felt the approach outlined could be improved. The following specific points were common themes amongst the responses received.

- There is support from a variety of stakeholders for a common framework for environmental incentives, with sufficient flexibility to respond to changes in technology and standards.
- Simplicity of the scheme and meaningful incentives are both important to maximise developer applications.
- Incentives should only be awarded for going beyond minimum standards found in building regulations and planning rules.
- There is support for taking steps to ensure that water efficiency benefits are realised after an incentive has been awarded, but this needs to be balanced against the potential resource strain of any auditing carried out.
- More detail is required around some of the proposals.

2. Consultation responses

In this section we summarise responses to each consultation question and explain how we intend to proceed.

2.1 Question 1 – proposed aims of environmental incentives

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

What we said

Our proposed aim for environmental incentives is that they result in greater water efficiency and/or more sustainable drainage across all types of new development.

Respondents' views

There was broad support for this aim from all stakeholders. Stakeholders raised the following points.

- Northumbrian Water, Thames Water, CCW and JETS Vacuum commented that planning requirements and mandatory legislation for homes to be built more water efficient and with improved drainage will be the main driver of future home efficiency.
- Anglian Water commented that environmental incentives for developers need to be part of a national framework of water efficiency measures, such as those in Defra's Environmental Improvement Plan. CCW added that incentives need to cover those smaller developments (fewer than 10 properties) not included in planned legislative measures.
- South East Water commented that any framework needs to be underpinned by what works for developers.
- United Utilities, the UKRMA, Waterwise, NHBC and IWNL noted that new homes make up a small proportion of the total housing stock and so interventions should also be levelled on existing properties and more broadly other demand side interventions would be needed to address water efficiency. United Utilities added that less than 1% of both the total drainage burden and total area demand is attributed to new builds in its area.
- Thames Water and Southern Water noted that greater standardisation of incentives across companies would increase their take-up by developers.
- Affinity Water recommended that environmental incentives should target both water efficiency and more sustainable drainage, not one or the other. Waterwise noted that environmental incentives should be available for non-households too.

- Wessex Water commented that it is inappropriate and unfair to put the onus on water companies, rather than developers, to address water efficiency by offering incentives to developers and that instead building regulations should be amended to make better management of rainwater mandatory.

Our view

We are pleased to see wide support for our aims for environmental incentives. We recognise that building new homes that are more water efficient and have better drainage is one way among many needed to address the serious challenges of water scarcity and sustainable drainage in England and Wales.

We agree that legislative measures – particularly changes to Building Regulations and the introduction of water efficiency labelling – will be a key driver of improvements in water and wastewater efficiency of new homes. We consider that environmental incentives also have a role, particularly in the short-term while legislative measures are developed, discussed and implemented. We also share the view that greater standardisation of incentives across companies is likely to increase their take-up and this is a large motivator of our work in this area.

We are keen to see companies offer developer incentives for water and wastewater services. We have not prescribed a formal process for offering environmental incentives to non-household properties but are already exploring this within Ofwat, including through the £100m water efficiency fund.²

Our proposals do not currently include incentives for existing properties, but the water efficiency of the existing housing stock is an area which is captured by other initiatives and plans, for example Defra's roadmap on water efficiency in new developments and retrofits, which includes ten proposed actions over the next decade.³

While ideally there would not need to be incentives for implementing solutions which are in the interest of society and the environment, environmental incentives are a valuable tool for changing behaviours in the absence of mandatory regulations. We note, as we did in our consultation, that in the long-term changes to the building regulations can be carried out to improve water efficiency and drainage.

² Ofwat <https://www.ofwat.gov.uk/consultation/scoping-the-water-efficiency-fund-high-level-consultation/>, July 2023.

³ Defra, [Environmental Improvement Plan \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/111111/Environmental_Improvement_Plan.pdf), January 2023.

2.2 Question 2 – characteristics of good environmental incentives

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

What we said

For environmental incentives to be effective, we think that they should satisfy several characteristics, which we capture in Figure 3 below.

Figure 3: Characteristics of good environmental incentives



Respondents' views

There was broad support for the characteristics of good environmental incentives outlined in our consultation. We summarise comments from the following respondents.

- Northumbrian Water suggested that our charging rules might focus less on cost-reflectivity and more on environmental benefits, to give companies flexibility in developing incentives. South West Water, Welsh Water and United Utilities welcomed the flexibility inherent in the proposed framework to allow for bespoke incentives to suit local circumstances.
- Southern Water, West Sussex local authorities and Waterwise commented that incentives should not be awarded for achieving mandatory standards.
- Thames Water noted that incentives should be simple to understand, accessible to all and should be based upon appropriate measurable performance metrics.

- Welsh Water and Yorkshire Water said that the incentives should be simple to understand with clear assessment criteria.
- Affinity Water, Keepmoat and South East Water questioned how maintenance of any greywater recycling or rainwater harvesting schemes would be guaranteed post-construction and who would be responsible for this.
- Welsh Water, Barratt Homes, Southern Water and Stormwater Shepherds noted that there should be an element of long-term certainty with incentives, regarding both incentive payments and the interventions accepted under the scheme.
- Artesia and HBF felt the 'Support innovation' and 'Complement wider policy' characteristics should be more ambitious in their wording and goals, eg not just being open to incorporating new approaches but actively seeking to do so, and felt in some cases technical innovations were being hampered by water companies not recognising them.
- ESP Water wanted clarification that 'Transparent, stable and fair' included financial fairness for all parties, including new appointees.
- Water Regs UK advised caution over objectives which could cut across other objectives, eg rainwater harvesting increasing carbon footprint of homes.
- Skewb commented that smaller developers could be disadvantaged as they could lack the ability of larger companies to be agile in response to changes in technology and economies of scale. HBF added that incentives should be available for developers of all sizes.

Our view

We consider companies understand the flexibility available to them and how best to balance the general principles within our charging rules⁴ which state that charges should, amongst other things, reflect both environmental protection and the long run costs associated with providing the relevant service. We expect companies to balance these principles, in the round, when setting environmental incentives in their company charges.

We would normally expect companies' incentives to be designed to exceed mandatory standards, though note the evidence we presented in our consultation suggests instances of poor compliance with such standards.

There are regional differences in water scarcity and drainage constraints, and we agree that it is better if companies design incentives to reflect these differences. Under our proposed framework we encourage companies to innovate in how they incentivise developers to build new homes in their areas that are more water and wastewater efficient, both to reflect local circumstances and to manage changes over time.

We agree that companies should be clear in how they apply their incentives, what evidence developers need to demonstrate in order to qualify, and the role of new appointees in being able to continue to fulfil their obligations under bulk supply and bulk discharge agreements.

⁴ Ofwat, [2023_04_01_Charges_Scheme_Rules_from_April_2023.pdf \(ofwat.gov.uk\)](#), April 2023.

Creating this clarity will depend in part on being able to provide an element of long-term certainty for incentives.

We acknowledge the views of respondents on greywater recycling and rainwater harvesting. We say more on this in sections 3.2 and 4.1.4.

We recognise the view raised that smaller developers may not have the same ability to access the economies of scale available to larger developers. It is an important part of our framework that environmental incentives are available to every developer, regardless of their size.

2.3 Question 3 – implementation in Wales

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

What we said

Developer services in Wales are subject to a different regulatory regime compared with developer services in England, where Ofwat has the power to set rules about specific charges which relate to almost all developer services activities. In relation to Welsh companies⁵ this power has not yet been brought into effect, meaning that those charges are still regulated by provisions set out in primary legislation.

Respondents' views

Few respondents commented on this question. Of those who did, we heard a consistent message that there would be value of any environmental incentives scheme established in England being implemented in Wales, due to the benefits of consistency and standardisation across regions.

- Welsh Water noted that because SuDS are mandatory in Wales, there should not be an incentive for complying with legislation.
- Severn Trent said it is important to consider the practicalities of funding incentives for small companies like Hafren Dyfrdwy.
- Anglian Water said implementation would need to align with applicable legislation and policy.

⁵ Companies whose appointed areas are wholly or mainly in Wales.

Our view

While noting the different regulatory regimes in England and Wales, we do see value in the approach for environmental incentives in England also being implemented in Wales. Offering incentives in Wales broadens the reach of the potential water efficiency benefits which this incentive scheme can promote. Any implementation in Wales would need to align with relevant legislation and policy.

We note that SuDS are already mandatory in Wales. We do however believe there could be value in incentivising SuDS specifications over and above the minimum requirements, particularly where there is a local need for a particular SuDS solution. We do not have powers to implement this directly in Wales but could engage with Welsh Government in the future should we wish to bring this in.

We acknowledge that funding for incentives could be more difficult for companies operating in a smaller region, as they will conceivably have a smaller number of new developments to raise incentive revenue from. However, this should be balanced out by the fact that there will correspondingly be a smaller number of new developments which could qualify for an incentive. We would welcome further discussion with small companies about the practicalities of implementing an incentive scheme in a small area.

2.4 Question 4 – case studies

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

What we said

We explored case studies from United Utilities, Thames Water, Southern Water and WRc, as well as other intelligence relevant to our proposals including:

- Defra's roadmap to water efficiency;
- mandatory sustainable drainage systems;
- current building regulations for water efficiency;
- codes for adoption agreements;
- current company environmental incentives;
- environmental incentives industry working group;
- Ofwat funds and performance commitments;
- other stakeholders' views;
- enforcement of compliance with incentive criteria.

Respondents' views

Respondents engaged thoroughly with the material we presented. They made the following key observations.

On Defra's proposed action of delivering mandatory **water efficiency labelling**

- Anglian Water, Severn Trent and Thames Water supported the introduction of a mandatory water efficiency label on fixtures and fittings. Anglian Water noted it would have useful synergies with environmental incentives, for example offering an incentive if high efficiency fixtures and fittings are installed. Severn Trent and Thames Water said it would drive cost effective product innovation and Severn Trent added it would improve the simplicity of the fittings approach.
- Keepmoat, IWNL, Vistry Group and ESP Water made comments around the perception of quality of water efficient products from consumers and that they could be educated about the benefits of retaining them.

On the **take-up of incentives by developers** so far

- Anglian Water, South East Water, South Staffs Water and Yorkshire Water commented that low take-up of incentive schemes to date is disappointing. Anglian Water and South Staffs Water said feedback suggests the value of incentives is too low. CCW suggested more should be done to find out why take-up has been low. Skewb suggested research could be carried to ascertain the total cost to developers of implementing an environmental incentive.
- Barratt Homes said developers can incur large upfront costs when installing water re-use products, and that setting minimum requirements (including accreditations and compliance with Part G Building Regulations) might help increase their attractiveness. It added that other issues such as health and safety risks and adaptations to house designs need to be considered when designing incentives.
- Affinity Water said the ongoing monitoring and evaluation of the impact and effectiveness of incentive schemes will be crucial to their success, identifying areas for improvement.

On the **fittings approach**

- Anglian Water, Thames Water and South West Water noted it was a more robust method than the calculations approach for measuring efficiency and simpler to monitor if it had been adhered to.
- Thames Water and Waterwise noted the fittings approach would help align with the introduction of water labelling.
- Stormwater Shepherds said that products used in the fittings approach need to be mandated in all new builds and need to be guaranteed to work at the efficient level. It added that the fittings approach does not preclude homeowners from swapping to less water efficient fittings, nor does it preclude incorrect (or absent) installation of water saving devices (such as flow restrictors, where these are not factory-fitted).

On **compliance** with the criteria for incentives and **auditing**

- Several respondents were worried (Portsmouth Water), disappointed (South West Water, CCW) and concerned (Thames Water, Waterwise) that case studies suggest compliance is low.
- Waterwise, Artesia, South West Water and Yorkshire Water noted the need for an auditing regime to ensure compliance. South West Water and Yorkshire Water added that additional resources would be needed for auditing and that the level of auditing required to facilitate an incentive scheme could be a barrier to effective implementation of incentives.
- Anglian Water suggested companies' audit costs need to be considered. Thames Water said it should not be onerous for companies to enforce what developers have committed to deliver and both it and United Utilities supported a temporary ban on developers applying for new incentives if they repeatedly fail compliance checks.
- Yorkshire Water and Portsmouth Water noted that widespread non-compliance risks undermining the value of environmental incentives. Yorkshire Water added that it may be better if we used a compliance regime from a sustainability framework already used by the developer sector.
- Portsmouth Water said there was a big part for local authorities, developers and building federations to play in ensuring incentive schemes are successful. London Borough of Tower Hamlets added that a joined-up approach to compliance would be beneficial.
- Anglian Water said it will survey 280 new homes to assess compliance with the 110 litres per person per day (l/p/d) standard, and work with developers on future procurement where it finds cases of non-compliance.

Respondents also made the following comments.

- Barratt Homes argued there should be a long-term strategy for adoption and maintenance of water reuse technology.
- IWNL commented that there may be a lack of incentive for developers to engage with water neutrality schemes outside of the incentive payment. United Utilities supported incentives that encouraged water neutrality and noted that Natural England only requires water neutrality in some areas of England. Thames Water said incentives could be applied across existing homes as well as new ones, through water offsetting.
- HBF held that all of Building Regulations Part G should be recognised as a means of calculating water use for incentives.
- Anglian Water noted that the network benefits to the water company of more water efficient new homes are difficult to quantify and translate into incentives, and they could be eroded over time if consumers replace water efficient fixtures and fittings with less efficient ones.
- Southern Water, Waterwise and Thames Water said incentives should change over time to align with tighter building regulation standards, and only be applied for going beyond the minimum standard required.

- South Staffs Water said mandatory building regulations are needed, accompanied by a well-advertised and collaborative approach by all stakeholders.
- Leeds County Council supported tighter water efficiency standards in new developments, citing its experience that developers are usually happy to adhere to these and that it is not particularly challenging or costly to achieve the 110 l/p/d standard.

Our view

We welcome the rich variety and depth of comments from respondents and we are keen to make sure we capture the lessons from the case studies we outlined in our consultation.

Defra's September 2023 announcement confirming mandatory water efficient labelling from 2025⁶ is welcome and we anticipate it playing an important role in driving greater water efficiency. We note the synergies with the fittings approach. We acknowledge that homeowners may replace water-efficient fittings installed by developers with less efficient ones over time, but water labelling should help preclude this.

We share respondents' disappointment about the low take-up of existing incentive schemes and encourage companies, developers and other stakeholders to continue to seek and provide feedback why this is the case. This could be an area that the environmental incentives working group looks at (we say more on this group in section 3.1). We expect our proposals for a common framework will help, by standardising incentive schemes across regions and promoting awareness among developers. Non-compliance with building regulations for water efficiency is similarly concerning and emphasises why auditing is required for a standardised incentive scheme. We look forward to seeing the results of Anglian Water's survey of new homes.

We acknowledge developers face high, up-front costs for some water efficiency interventions. We hope a common framework, better communication of incentives, increased awareness around water stress and technology innovation will help reduce these.

We recognise the calculation approach is still part of building regulations, but the growing amount of evidence demonstrating that this methodology does not accurately measure water efficiency means we believe incentives should only be offered for efficiency achieved as measured by the fittings approach.

We expect to develop and refine our approach to environmental incentives over time. This will include ensuring incentives are only typically applied when achieving above the minimum standards. We will seek alignment with Defra's proposals under its Plan for Water⁷ and will

⁶ Defra, [announcement confirming mandatory water efficient labelling](#), September 2023.

⁷ Defra, [Plan for Water: our integrated plan for delivering clean and plentiful water – GOV.UK \(www.gov.uk\)](#), April 2023.

liaise with DWI, companies and others to consider how to address issues with rainwater harvesting and greywater recycling. We will continue to work with stakeholders to drive greater efficiency in new homes. We call upon all stakeholders to play their part in promoting efficiency in water use and sustainable drainage.

We welcome the observation that achieving the 110 l/p/d standard is not particularly challenging or costly and would welcome any evidence that supports this. We hope this provides added reason to push for a level of water efficiency ambition beyond this level.

2.5 Question 5 – standardised tiers

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

What we said

We believe our proposed aim is best achieved if companies work within a common framework for environmental incentives. This would include a set of standard, consistently defined incentives, with agreed technical standards for eligibility and alignment with the characteristics outlined. Over time, companies could share their learning and best practice, which would enable them to increase the standard set of incentives.

We also propose that all companies offer standardised incentive tiers. We propose that the incentives would be similar to the tiers of incentives implemented by Thames Water and Southern Water, so as to create a common framework for all companies that all developers can become familiar with.

Under our proposed common framework, all companies would offer incentives for new build homes achieving at least 100 l/p/d water efficiency and for ensuring the installation of SuDS of some description. We also propose optional tiers for greywater recycling or rainwater harvesting and water neutrality.

Respondents' views

We received good support for standardised incentive tiers in principle, but many stakeholders offered constructive comments on the practicalities of implementing this proposal. We summarise the key themes below.

- Anglian Water suggested there could be merit in pursuing a single incentive for an ambitious level of water efficiency, with a payment level set high enough to drive developer take-up, rather than a multi-tier system which so far has seen poor take-up. It would not prescribe what methods developers should use to achieve the target,

therefore promoting flexibility and innovation. It may need to restrict the number of qualifying developers, so as to achieve revenue neutrality.

- Anglian Water and Affinity Water said they were not in favour of offering an incentive for SuDS installation, as this will soon be mandatory for all developments with the imminent implementation of Schedule 3 of the FWMA10.
- Northumbrian Water said it was wary of the implementation of a minimum value of incentive offering, as even small changes in take-up numbers will affect the revenue balance.
- Severn Trent and United Utilities called for more detail to be provided around the specifications of each proposed tier.
- Southern Water proposed that water companies should have the ability to go beyond the framework for water stressed areas.
- Southern Water, South West Water, CCW and West Sussex local authorities commented that incentives should only be paid where developers go beyond minimum required standards. In contrast, Barratt Homes proposed that incentive payments should align with the proposed standards set out in Defra's Environmental Improvement Plan.
- Yorkshire Water asked if incentives would be capped at the level of the infrastructure charge and whether customer money could be used to fund incentives where there is a clear rationale for doing so.
- Portsmouth Water and Water Regs UK flagged a potential public health risk associated with water re-use schemes.
- Hilson Moran and Artesia commented that incentives need to be attractive enough for large developers to take part.
- Vistry Group, HBF and the Housing Forum expressed concerns over incentivising water neutrality, seeing this as the responsibility of companies not developers and noting the role consumers have to play in reducing water consumption.

Our view

Anglian Water has a valid point that a single tier incentive structure set at an ambitious level could also incentivise environmental sustainability in new properties. It noted that the level of water saved is more important than how those savings are achieved and that low levels of additional efficiency encouraged by tier 1 in a tiered structure may not be sufficient in severely water stressed areas. Therefore, we propose to allow a single tier approach, using a high level of water efficiency, by those companies who believe it would be more effective than a tiered approach.

We recognise the comments and concerns about community-wide water reuse schemes and the issues of maintenance of reuse systems at the individual household level. Additionally, we note that water company incentives for water neutrality are yet to be taken by developers. However, we believe reuse is a vital part of how to tackle water scarcity and we think this has wide support in principle. We also are actively working with stakeholders, both in our working group and more widely (including with DWI and Defra directly) to address challenges that

may impede the effective delivery of reuse schemes. Therefore we will maintain the option for companies to offer incentives for both water reuse schemes and water neutrality.

We continue to see merit in encouraging companies to offer bespoke incentives for SuDS, where appropriate, until details of the specifications of mandatory SuDS under Schedule 3 of the FWMA10⁸ become known. We acknowledge the comments about SuDS and incentivising schemes that may be mandatory under Schedule 3. We have discussed with Defra its plans for mandating SuDS on new developments, including a consultation later this year on National Standards for SuDS and the likely timing of any implementation. Therefore, we propose to wait for further detail around the implementation of any mandatory scheme for SuDS before deciding whether (and if so, how) water companies could incentivise SuDS installation under a common approach.

We agree that incentives would ordinarily only be awarded where developers are able to demonstrate they have gone beyond minimum standards in a region. However, there may also be a case for offering incentives to improve compliance with standards. In practice, we see this meaning that from region to region, there may need to be some variety in the level of water efficiency incentivised.

We plan to launch a common standard for a single tier in April 2025. Companies will retain the flexibility to choose the level of litres per person per day (l/p/d) which would earn an incentive payment. Part of the scope of the environmental incentives working group is developing an appropriate fittings measure of l/p/d for levels below those set out in Building Regulations (110 l/p/d). This will likely draw on the work being carried out by the Future Homes Hub concerning fittings approaches for greater levels of water efficiency.

We confirm that companies should not cap incentives at the level of the infrastructure charge. For incentives to be effective, especially for approaches that would deliver more ambitious levels of efficiency, they will need to reflect the wider benefits of the water saved as well as taking account of the higher costs of such approaches. Larger incentives would in practice only be offered for interventions such as greywater recycling or retrofitting to ensure a new development is water neutral.

We will not introduce a requirement for minimum values for incentives at this stage. We recognise that it is not straightforward for water companies to estimate how popular their schemes will be in year one of the scheme being introduced. This said, we expect incentives to be meaningful to encourage take-up and to broadly reflect the benefits to the water company and society more generally.

⁸ Legislation.gov.uk, [Flood and Water Management Act 2010 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2010/23/section/10), January 2024.

2.6 Question 6 – common methodology and standards

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

What we said

We propose that the methodology and/or technical standards for meeting water efficiency standards would be set out in a common framework document. Where possible, the methodology would be consistent with an established methodology – for example building regulations – and therefore would simply refer to another published document. We propose that the methodology would be more analogous to the existing building regulations fittings approach, rather than the calculations approach.

Respondents' views

We received broadly positive responses to this question and a number of comments about how this can best be achieved in practice. Most stakeholders supported the use of a fittings approach for measuring water efficiency to achieve incentives. We summarise the key responses below.

- South West Water commented that the enforcement of a common methodology is likely to be beyond the scope of building controls/planning authorities.
- United Utilities observed that Part G2 of the planning regulations currently only specifies fittings approaches for 110 and 125 l/p/d/, hence a new fittings methodology for 100 l/p/d and below would need to be created if a fittings approach were to be used.
- South East Water expressed a need to engage with Water Regs UK to assess the risks of this proposal and how they can be mitigated.
- The National House-Building Council warned against dismissing the water efficiency calculator and highlighted how it allows more flexibility. Related to this, Barratt Homes said there needs to be a transition period whereby discounts apply when efficiency is achieved using the calculations approach.
- Keepmoat advised that the incentive programme should be aligned with building regulations to provide consistency and clarity in the development of compliant specifications.
- Water Regs UK and CCW commented that any common methodology could be adjusted to use the mandatory water label when this becomes available.
- The HBF commented that there should be flexibility to allow for innovation in water efficiency solutions.

- The University of Sheffield raised the view that the treatment of SuDS in the consultation was high level, and that more consideration was required around the nuances of appropriateness of rainwater harvesting and SuDS in different contexts.

Our view

We have established an environmental incentives working group to help agree the common methodology and technical standards associated with the incentive scheme. This group is chaired by Ofwat and includes representatives from incumbent water companies, new appointees, developers and other invested stakeholders (see section 3.1 for more information on the working group). Including this range of stakeholders helps ensure the design of the incentive scheme is understood and works for all parties. In addition to this group, we have a wider stakeholder group with whom we may discuss details of our proposals from time to time, as these are developed.

A key output of the working group will be formulating a new fittings approach for levels of efficiency higher than those in the building regulations. This new approach will as far as possible be aligned with other relevant benchmarks in the sector, such as Defra's plan for water⁹ and the Future Homes Hub's work in this area.

We intend to make our guidance in our charging rules flexible to respond to future innovations and legislative changes, such as mandatory water efficiency labelling which we hope will make measuring water efficiency more straightforward for all stakeholders.

Given increasing agreement that the fittings approach to measuring water efficiency is more accurate than the calculation approach, we would only expect companies to pay water efficiency incentives when the fittings approach has been used. In our guidance, we will only provide common guidance for a fittings approach for measuring water efficiency.

We note the observation that Part G2 of the building regulations does not currently include a fittings approach below 110 l/p/d. We are proposing that establishing this will be a key output of the environmental incentives working group. We envisage this will largely be based on the work being carried out by the Future Homes Hub in this area.

We recognise that many of our outlined proposals were covered at a high level in our consultation document. Having received views and feedback, we are developing the detail of our proposals, with help from the environmental incentives working group, ahead of consulting in summer 2024 on proposed changes to our charging rules.

⁹ Defra, [Plan for Water: our integrated plan for delivering clean and plentiful water - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/plan-for-water), April 2023.

2.7 Question 7 – bespoke incentives

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

What we said

We propose that companies can offer additional incentives (bespoke incentives) where these do not undermine the benefits of standardisation, to support innovation. In practice, we think that this means that the company must offer the standardised incentive, and that the size of the bespoke incentives should be proportionate to the size of the standardised incentives.

Respondents' views

There was no opposition to the inclusion of bespoke incentives in our framework in principle and comments were offered concerning how this could be achieved in practice. We provide a summary of responses below.

- Severn Trent expressed a desire to allow in-year agility when it comes to the implementation of bespoke incentives, rather than requiring them to be outlined ahead of time in company charges.
- United Utilities commented it may be appropriate for bespoke incentives to sit outside the normal application process and be limited to a specific time period, allowing them to function as pilot schemes.
- Yorkshire Water raised concerns over the proposal to incorporate bespoke solutions into the common framework once they had been established by one company.
- The Independent Networks Association and ESP Water commented that it is difficult to see how bespoke solutions could be applied to new appointees.
- Barratt Homes welcomed bespoke incentives as a means to introduce flexibility and hoped that the standardised tiers would not reduce that.

Our view

We think it is important that companies have the flexibility to offer bespoke incentives in their regions which might not be covered in the standardised incentive scheme. These bespoke incentives will be funded the same way as the standardised incentives, that is, through the proposed Environmental Component of the infrastructure charge. Companies will need to consider carefully how bespoke incentives might affect new appointees in their areas.

We think it is important that companies publish bespoke incentives along with their standard incentives when they publish their charges, in order to increase transparency and promote

stability for developers. There may be instances where a company identifies a significant benefit from introducing a new bespoke incentive in-year, and we would not want to stand in the way of new measures to support water efficiency, but on balance we would normally expect all incentives to be available from the start of the charging year.

While we recognise that there are difficulties with including bespoke incentives in a common application process, they should still be straightforward for developers to identify and apply for from region to region. In practice this could mean having a 'bespoke incentives' box on environmental incentive application forms, and links to where each water company can set out the criteria for obtaining their bespoke incentive.

We agree that companies' bespoke incentives should not automatically be incorporated into the common framework, but could be included on a case by case basis. More broadly, we expect companies to take into consideration learnings from other companies when establishing bespoke incentives.

We have engaged with new appointees since we published our consultation to discuss how the bespoke offering could be applied by them. We will continue to engage on this, primarily through the environmental incentives working group. As we noted in our consultation, it may be beneficial to both new appointees and incumbents, and more practical, to use different but equivalent metrics such as ongoing water consumption or discharge volumes.

2.8 Question 8 – reputational incentives

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

What we said

We are proposing the common framework includes a reputational element. This could take the form of, for example, a bronze/silver/gold label for each development, where gold reflects the most ambitious and beneficial approaches, recognising the effort developers are making towards improving sustainability. This could be calculated on the basis of the information that a developer or third party would submit to the water company to apply for the financial incentive, updated to reflect the payments made.

Respondents' views

There were a range of views on the topic of reputational incentives. We capture the key themes below.

- Anglian Water, Severn Trent, Thames Water and other stakeholders supported the idea in principle but were unsure how it might work in practice.
- Yorkshire Water, London Borough of Tower Hamlets and Waterwise suggested that any reputational scheme should be aligned with an existing housebuilding quality certification scheme.
- The National House-Building Council commented that a reputational scheme should be voluntary and not part of a minimum performance standard.
- Barratt Homes and Stormwater Shepherds both noted that customer buy-in is a crucial determinant of the success of these schemes, with Barratt suggesting customer education and support should underpin any reputational scheme.
- Artesia and Vistry Group commented that consumers should be consulted to ascertain if a reputational scheme would be useful to them.
- CCW advised that reputational awards should require sufficient evidence to prevent "green washing".
- The HBF said it was cautious about a reputational scheme, as geographical and geological constraints may be outside of the control of developers, hence they could be unable to achieve the incentive through no fault of their own.

Our view

We welcome the recognition from some respondents that reputational incentives have the potential to encourage the development of water efficient properties. We recognise that a reputational incentive would need to be a partnership across the water and developer sectors. We agree that any reputational scheme should consider the value to home buyers. We are also open to the idea of any future reputational scheme being aligned to existing housebuilding quality certification schemes. We will continue to explore this in the short term to assess the extent to which this is feasible and would benefit purchasers of new homes.

We think it is important that developments cannot opt out of such an incentive; this creates a greater incentive to push ambition in the area of water efficiency.

We acknowledge the view that in some instances geographical constraints or other uncontrollable factors could prevent a development from achieving a certain standard of water efficiency. We do not consider this outweighs the positives associated with reputational schemes, such as increased transparency for customers of the water efficiency of a property and an additional incentive for developers to push ambition in the area of water efficiency.

2.9 Question 9 – payment of incentives

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.

What we said

Developers will need to plan water efficiency and sustainable drainage early, and this means they want to have confidence regarding the size of the incentive payment and the standards required. In practice, we think this means that a contractual agreement is made at an early stage between the developer and the water company. Water companies want to have confidence that the new development has met the necessary standards, which would mean that the incentive is paid at a late stage in the process – for example after the fittings have been installed but before occupancy. We are seeking views on how this might best be achieved.

Respondents' views

- Anglian Water, Yorkshire Water, South East Water, Severn Trent, HBF and others proposed that incentive payments are only paid once the benefit is confirmed, but that the value of incentive to be earned by the developer is agreed up-front, providing cost certainty.
- Thames Water commented that it currently applies environmental incentives at the same time the infrastructure charge is calculated as cost certainty is important to developers; applying the calculation of discounts to after the build would create uncertainty.
- South West Water said the administrative burden could be reduced if companies agreed standard house specifications with developers annually.
- Affinity Water highlighted that companies having to request a refund after the incentive is awarded could harm the company's reputation and D-MeX score.
- Waterwise suggested that the incentive payment could be split: 30% following a successful application, 70% upon completion of successful audit.
- Other stakeholders offered different views as to when the incentive payment should be made, but most focussed on the need for cost certainty for developers and realisation of efficiency gains for water companies.

Our view

We agree with the principle that the incentive payment should only be paid once the **successful implementation of the water efficiency initiative has been confirmed.**

However, we also appreciate that developers require cost certainty ahead of project completion, and hence the **value of the incentive payment should be agreed up front**.

The precise gateways will be specified as part of the remit of the environmental incentives working group. For example, payment could be at the stage of plumbing installation certificates being provided; this is the point in time where building control bodies sign off the property as ready and fit for occupation. Companies and developers should seek to minimise transactions costs as part of the process by which incentives are paid.

We envisage that standard, incentive-earning fixture and fittings specifications would be in the common guidance document. This would create stability as developers would have one source of truth for the standards they need to meet in order to earn an efficiency incentive each year. This common framework could be updated at appropriate time periods.

We note the concern that the process of having to appeal against developers who have been paid an incentive but then fail an audit could harm the company's D-MeX score. At this time we are not proposing to account for this in D-MeX as any negative effect is likely to be reasonably balanced across companies and not hugely material in the overall D-MeX score.

2.10 Question 10 – compliance with technical criteria

10) Do you have any comments on how high levels of compliance with the incentive technical criteria might best be achieved?

What we said

It is important for the success of environmental incentives that companies and developers are confident that any incentive based on meeting a specified level of water efficient use is correctly applied.

In addition to engagement and effective communication from companies to developers, companies could:

- make the payment conditional on a sample of new homes passing an audit of compliance with the relevant standard. This would mean that the payment was made after fittings were installed.
- introduce a deterrent in the form of disqualification from applying for future environmental incentives (for a period) if a developer failed compliance audits.

Respondents' views

All stakeholders are united in seeing the importance of ensuring any forecast benefits of environmental discounts are delivered in practice, but there were a range of views on the practicalities of auditing as a means to achieve this. We provide a summary of views below.

- Anglian Water, Severn Trent, West Sussex local authorities and United Utilities said that any incentive scheme needs a reliable enforcement programme. Anglian Water suggested a centralised and common approach to providing evidence of compliance may be beneficial.
- Severn Trent and Southern Water commented that assurance costs could be funded by the incentive pot. This would need to be balanced against keeping incentives as large as possible to remain attractive.
- South West Water commented that the threat of disqualification from future incentives may not be an effective deterrent.
- South West Water and Thames Water noted concerns that audits could be resource hungry, ultimately increasing the costs of new connections.
- Yorkshire Water said there is value in leveraging existing UK building quality and sustainable home standards and called for building sector/planning experts to be involved in the design of the scheme.
- South East Water and London Borough of Tower Hamlets commented there could be benefit in a longer-term piece of work to check if the benefits of water efficiency remain in place over time.
- Stormwater Shepherds observed there may need to be quality and assurance on the products and fittings themselves.
- The National House-Building Council called for collaboration between designers, suppliers and installers to ensure the system is compliant.
- Independent Water Networks Limited commented the issue of compliance is particularly acute for new appointees, given the potential implications for Bulk Supply Agreements if demand exceeded supply.
- Vistry Group commented that a direct contact within a company for incentive queries would be helpful.
- The HBF and the National House-Building Council commented that clear communications to customers is crucial for these incentives to be effective.
- Skewb and Artesia observed that smart metering data may be a useful alternative to audits in determining if incentive criteria are being adhered to.

Our view

We remain confident that a degree of rigour is needed to protect the integrity of incentive schemes, particularly in light of the findings of the United Utilities and WRC case studies in our consultation document. We do however not wish for environmental incentive schemes to be resource intensive to the stakeholders involved. As such, a reasonable way forward could

be for companies to carry out a sample of audits on those new developments where developers have applied for incentives.

While we appreciate auditing of homes to ensure water efficiency may impose some cost on water companies, this is one of a number of activities we would expect companies to be doing to support water efficiency. We note that companies have long had a duty to promote water efficiency and are both given additional allowed revenue to finance water efficiency activities and are further incentivised to do so through their PR24 common performance commitment on per capita consumption.

Quality and assurance around the products and fittings which are being advertised as being water efficient is crucial to the success of incentive regimes. As part of the common guidance, we would seek as far as possible to align with recognised standards, such as the water efficiency label once this is implemented.

There are already examples of companies disqualifying developers from future applications if they fail audits. We are keen to learn how effective this is as a deterrent and whether it undermines the simplicity of an incentive scheme from a developer's point of view. We are keen for any incentive scheme to avoid deterring those developers, particularly small developers, who make genuine mistakes leading to them failing an audit; equally, the incentive scheme needs to be robust and fair. Effective communication of common standards and qualifications will reduce the number of fails, while auditing would prevent incentives being paid out for uncompliant homes.

We also recognise the value smart metering has for monitoring compliance, particularly on larger sites where homes are built out in phases and hence some homes may be occupied before others are completed. A company could monitor usage in the occupied properties to help gauge the level of water efficiency in the new properties. We reiterate, as respondents also did, that efficient fixtures and fittings alone are not responsible for consumption, and home dwellers have an important role to play in reducing demand in the long term, and so it is unlikely we would rely solely on smart meter data to inform compliance.

2.11 Question 11 – funding of incentives

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

What we said

We propose that the environmental incentive revenue is collected as a new environmental component within the infrastructure charge. Each water company would estimate the number of developers it anticipates would benefit from incentive payments and the value of these incentives. The water company would then set the environmental component of the infrastructure charge at the level for it to be financially neutral overall over a number of years. There is likely to be some variation year to year between the amount of revenue generated by the environmental component and the total value of incentives paid out, but we expect companies to adjust their component over time to account for this.

Respondents' views

There was support from most stakeholders for funding environmental incentives via an additional environmental component of the infrastructure charge. We provide a summary of comments below.

- Anglian Water suggested that the value of the environmental incentive should reflect environmental benefit.
- Anglian Water said balancing the revenue being taken in with the incentives paid out is unlikely to be simple and wanted to make sure the benefits of this scheme are worth the effort, potentially by carrying out an impact assessment.
- Yorkshire Water noted that whatever method is chosen for taking in/paying out incentive funds should be clearly communicated to customers.
- Affinity Water, South East Water, South Staffordshire Water, Sutton and East Surrey and the Housing Forum said they would prefer to keep the environmental component separate from the infrastructure charge.
- Affinity Water observed it would like clarity on what financial neutrality 'over a number of years' means in practice.
- Waterwise commented there may be a risk that areas of little development are not able to offer as large incentives as those with more development.
- Keepmoat and the HBF commented that the funding mechanisms should remain transparent so that water companies cannot benefit from an opaque funding mechanism.
- Keepmoat believed the financial benefit to the water company of reducing water consumed should be shared with the developer.
- The Independent Network Association said it was unclear on how incentives will be passed onto NAVs through the bulk charges.
- CCW and Skewb shared concerns that smaller developers may be disadvantaged compared to larger developers or those who can purchase water efficiency technology more easily.

Our view

While a few stakeholders stated a preference to separate the environmental component from the infrastructure charge, most stakeholders shared our preference to include the funding for incentives as part of the infrastructure charge. We note concerns that doing so could decrease transparency, but the requirement to include revenue taken in for incentives in annual submissions mitigates this risk. Water companies will not be able to profit from any difference between revenue taken in and paid out as this will be reported year on year and will need to balance over time.

While we are comfortable not directly linking the value of the environmental incentive to the anticipated environmental benefits, we encourage companies to more broadly set incentives at a level which reflects the benefit they receive and the benefits to the wider environment.

Where we stated we were looking for financial neutrality 'over a number of years' in our consultation document, this reflects the fact that in the early years of the schemes, predicting uptake will be difficult, but subsequently we would expect companies to have a more accurate picture of likely take-up and therefore be in a better position to balance the revenue taken in with incentives paid out, reflected in a lower variance between these two figures.

We do not believe the financial benefit to the water company of reducing water consumed should be shared with the developer. The developer already benefits through receiving an incentive payment and it is not typical for home builders to receive a share of energy or efficiency savings which are realised due to the way they have built the home.

We will investigate the precise way in which incentives can be passed through to new appointees as part of our environmental incentives working group.

We recognise the risk that smaller developers could be disadvantaged compared with larger developers. There may be a number of reasons for this, for example lower awareness of the incentives, which the industry would need to work to address. However, we do not think that water efficiency technology is a significant barrier for smaller developers achieving the incentivised level of water efficiency.

2.12 Question 12 – guidance in the charging rules

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

What we said

To assist with the transition towards a common incentive framework, we are proposing introducing guidance, issued under the charging rules. This would ensure there is consistency across companies. The contents of this guidance could focus on methodologies or technical standards. The NCC (new connection charges) industry working group may be the most appropriate group to undertake the work of preparing this document. To allow for incorporation of new technology, the technical standards should be subject to a change control process which allows for updating. This would best be achieved through an impartial expert panel making recommendations to Ofwat.

Respondents' views

- Northumbrian Water commented that negative infrastructure charges (where incentives are larger than the charge) may not comply with the cost reflectivity principle of current regulatory guidance.
- Thames Water advised that using working groups can often take longer than planned to work through all the issues.
- United Utilities commented that it is important to consult on the detail of proposed changes as soon as possible in order to hit the April 2025 deadline.
- Yorkshire Water does not believe a Water UK-led working group is best placed to prepare detailed guidance and that any working group should include building sector representatives and planning authorities.
- The Independent Network Association proposed an amendment to current guidance on charging rules, to include a clause that mandates uniform application of environmental incentive requirements across all market participants.
- Skewb noted that it is important to consider what to do with respect to under or over recovery.
- Independent Water Networks Limited and West Sussex local authorities both commented they would be happy to contribute to this work.

Our view

On balance, we hold that the principles outlined in our charging rules, including that charges should reflect both costs and environmental protection, create a sufficiently flexible framework in which companies can offer incentives. We are not minded to change our charging rules in this area and trust companies to be pragmatic in the way the cost reflectivity guidance is applied to environmental incentives.

We note the comment that working groups can take longer than planned to deliver their outputs. This is one reason why we decided to create our environmental incentives working group, and to chair it, so that we can drive momentum towards our hard deadline of going live in April 2025. We have set an ambitious but manageable timeline to put proposals in place for April 2025, but in so doing will not compromise the quality of outputs.

We still see guidance sitting under our charging rules as an important enabler of a consistent environmental incentives framework and our environmental incentives working group will assist with this work. The working group consists of representatives from water companies, new appointees, developers and planning authorities. This working group had its first meeting in November 2023 and will offer recommendations for our final proposals, which we will consult on in Summer 2024. For more information on this working group, see section 3.1.

We consulted on our intention that environmental incentives should be applied uniformly across all market participants, including new appointees, and will finalise the details of how this is achieved through engagement with new appointees, chiefly through the environmental incentives working group.

With respect to under and over recovery, we have stated that small variations year to year will be inevitable but hope over time companies will adjust their incentives offered and environmental components taken with the objective that it is revenue neutral over time.

We are grateful to stakeholders who have come forward to offer to help develop the common framework.

2.13 Question 13 – interactions with the regulatory framework

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

What we said

We expect companies to continue to publish their incentives as part of their annual charging arrangements. Companies should explain how developers can qualify for incentives and promote them to all their developer customers. Where companies need to make changes to their incentive frameworks from year to year, they would be subject to the existing arrangements around significant changes. In practice, this would likely mean that environmental incentives are included in worked examples.

To ensure an effective developer services market, there needs to be a level playing field between new appointees, self-lay providers and incumbent companies in terms of offering incentives to developers.

We are not proposing to include specific service levels relating to environmental incentives in the developer services measure of experience (**D-MeX**) at this stage. As part of PR24, we are consulting on D-MeX policy issues this summer (summer 2023).

Respondents' views

There was good engagement on this question with a number of comments regarding different aspects of the regulatory framework. The key themes are summarised below.

- Anglian Water noted the proportional impact of this scheme's implementation on D-MeX may not be equal across companies, due to differences in surcharge values.
- South West Water suggested introducing a quantitative metric to D-MeX to introduce defined timescales for payment, to incentivise good performance.
- Skewb proposed a simple quantitative measure to measure the length of time between evidence being provided and incentive being paid.
- Waterwise agreed that incentive schemes should not be included in D-MeX but propose that this is kept under review.
- The Independent Networks Association held the view that environmental incentives should be covered in D-MeX.
- ESP Water and Independent Water Networks Limited raise a number of issues between the interactions between our proposals and New Appointees.

Our view

On D-MeX, we hear the view that there could be differences in incentive experience across regions and therefore variation in terms of developer experience scores from region to region. However, we believe any variation will be minimal, in the round; while the value of incentives could change from region to region, incentives will be available in every region and so a developer can typically expect to earn an incentive for each region, even if the value of this varies.

We will consider any decision to include a quantitative metric as part of the wider consultation on customer measure of experience, but we confirm that we are currently not minded to do so.

Our view is clear that new appointees should not be disadvantaged compared with incumbents when it comes to incentive offerings, but the detail of this needs to be developed further as part of the working group. We have two new appointee representatives on our working group who can provide insight from a new appointee's perspective and liaise with other new appointees to ensure they are able to feed into the detail of these proposals as they develop.

3. Sector progress

Since summer 2023, we have been considering, processing and engaging further on the responses received.

3.1 Environmental Incentives Working Group

Since the summer, we have established an Ofwat-chaired environmental incentives working group. The role of the working group is to work collaboratively and collectively on behalf of relevant stakeholders to agree the detail of the environmental incentive guidance that will sit under our existing charging rules. The group will use their work to inform their recommendations to Ofwat as the basis for consultation we intend to carry out in June 2024. We would be responsible for the final content of the proposals we consult on, but these proposals will be informed in large part by the working group.

Different to the New Connections Committee working group we established in early 2023 to feed into our summer consultation document, we wanted to ensure there was representation not only from water incumbents but other relevant stakeholders, including developers, new appointees and other engaged stakeholders. To this end, we contacted all consultation responders to request volunteers who would like to practically help us develop the detail of our proposals. We were pleased to receive a large number of responses to this request.

We have established two tiers of involvement. The core working group is looking at the issues in detail, and meeting regularly to discuss and develop the detail for our common framework. In addition to the core working group, we established a second, larger tier of stakeholders who we will test the detail of our proposals with on an ad hoc basis. We are grateful to both groups for their commitment to environmental incentives.

The core working group comprises individuals from the following stakeholders:

- Ofwat (Chair);
- Wessex Water;
- United Utilities;
- Yorkshire Water;
- South East Water;
- Independent Networks Association;
- Future Homes Hub;
- Barratt Homes;
- Rainwater Management Association;
- The Housing Forum;
- Water Regs UK.

The scope of the working group includes, but is not limited to, the following outputs.

1. A common "fittings approach" for levels of water efficiency equal to or below 100l/p/d, building on the work of the Future Homes Hub in this area. This includes consideration of the fittings/technology that should/ should not be allowed to contribute towards meeting this target.
2. A common approach to auditing compliance with companies' qualification criteria for environmental incentives (including deterrence / penalty measures).
3. Agreement on a common process for applying for incentives (e.g., portal / form / template).
4. Agreement on the scope and standard of evidence required to support applications for environmental incentives.
5. Agreement on when incentives should be paid within the new connections process.
6. Consideration of the scope of further work to enable implementation of greywater recycling and rainwater harvesting schemes.
7. Consideration of how Environmental Incentives apply in relation to new appointees and their bulk supply agreements.

The working group members are working specifically on a few of these each in sub-groups, while also drawing in the expertise and views of their own constituent organisations and the sector more widely.

3.2 Greywater recycling and rainwater harvesting

Since our summer 2023 consultation, we have engaged further with a number of stakeholders around the implementation of water reuse schemes, specifically greywater recycling and rainwater harvesting schemes.

We are encouraged by the strong support from stakeholders, including Defra and DWI, for the benefits these schemes can bring, recognising that water reuse can play an important role in managing water supply and demand in England in the future. In the Plan for Water¹⁰, Defra committed to investigating dual pipe systems and water recycling options for new housing development, and to review water efficiency options in planning, building regulations, and voluntary schemes for non-household buildings. These are part of Defra's roadmap to water efficiency, to be delivered over the next decade.

At the same time, we and others acknowledge that introducing new supplies of non-potable water into homes may increase the risk of contamination of potable supplies, particularly through the risk of cross-connections carried out by third parties. We share stakeholders'

¹⁰ Defra, [Plan for Water: our integrated plan for delivering clean and plentiful water - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/plan-for-water), April 2023

concern that we need to protect public health, while finding a safe and sustainable way to harness the benefits of recycling for current and future generations.

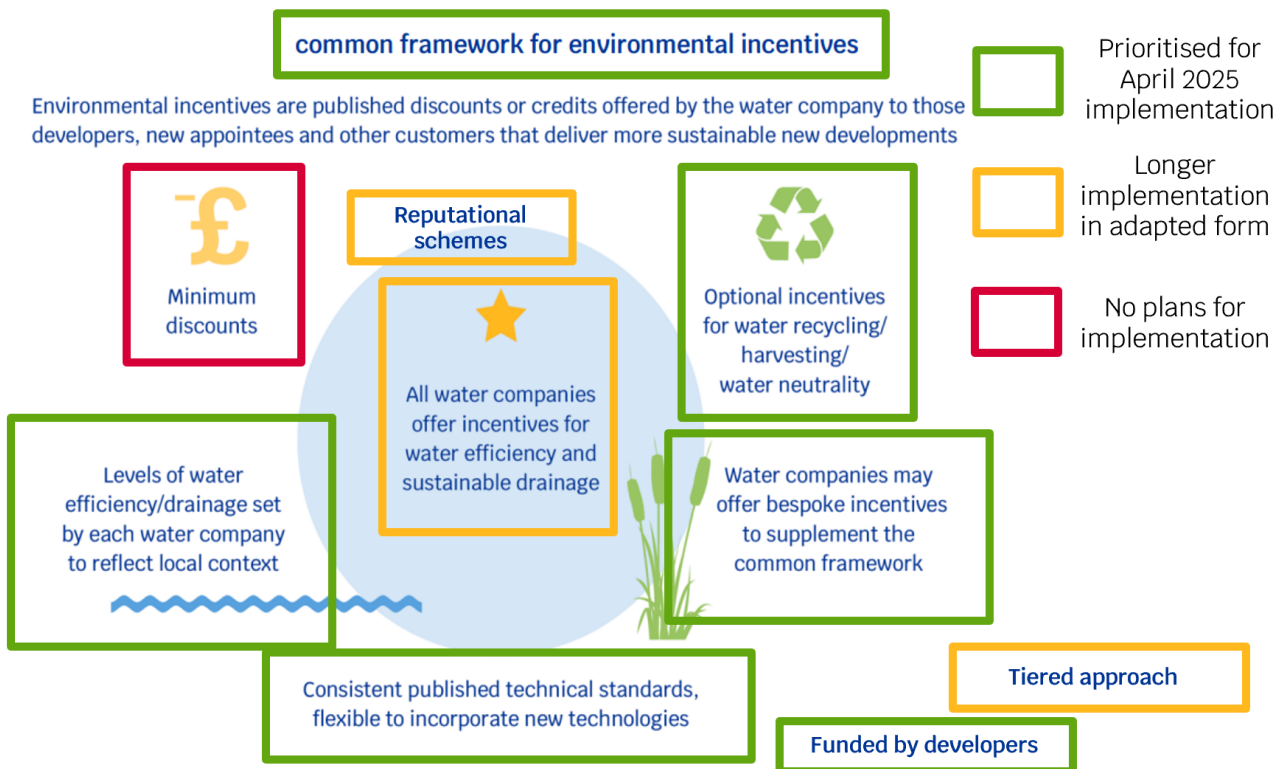
There may be merit in considering community-level schemes separately from approaches at the individual level, as the levels of risk and responsibility are different. The environmental incentives working group is considering the issues and we will consider how we might include reuse and recycling in our incentive scheme going forward. We will continue to encourage water companies to offer incentives for recycling and reuse, where they and developers can work together on low-risk solutions.

4. Conclusions

In this section we outline the main conclusions of our summer 2023 consultation on environmental incentives and detail the proposed scope of the environmental incentives common framework we plan to implement from April 2025.

Figure 4 below gives a high-level indication of which of our confirmed proposals we will implement or adapt for April 2025. In refining our plans we have taken account of feedback received in consultation responses and prioritised activities that we can implement by April 2025.

Figure 4: High level overview of changes to our proposals since consultation



4.1 Key policies for implementation in April 2025

Below we provide a brief explanation of the key features of our proposals which remain largely unchanged since our June 2023 consultation.

4.1.1 Common Framework

We are creating a common framework for environmental incentives across all water companies. There was strong support in the responses received for coordinating the incentive offering across companies, recognising that developers knowing what they need to do to earn an incentive in any given region is likely to improve take-up, compared with facing a different incentive regime in each region. While companies can still differentiate themselves, for example by changing the exact l/p/d target being incentivised or through bespoke incentives, our vision is for the scheme to look the same from region to region. This could be achieved in part by using the same application form for each company's incentives, creating familiarity with the process.

4.1.2 Environmental incentives funded by developers

Developers have the opportunity to earn incentives, so it is appropriate that they fund this incentive pot, rather than household customers. We acknowledge that it will not be straightforward initially for water companies to accurately predict incentive take-up, and hence how much revenue they need to take in from developers to fund these incentives, but we expect over time the amount taken in and paid out to be broadly the same. Companies will report this to us, providing commentary to explain any differences and how they plan to address them.

4.1.3 Environmental incentives based on local context

While seeking to maintain a common approach across England, we want to give companies the flexibility to determine the level of water efficiency, in litres per person per day, to be incentivised, so long as this level is below the levels found in building regulations. This is to reflect that water is scarce to different extents between regions. In order to simplify the process for developers, the working group is developing a common application process.

4.1.4 Water reuse and water neutrality

We want companies to have the option to offer incentives for water reuse schemes and water neutrality but confirm that offering incentives for these things is not mandatory. We acknowledge that take-up of incentives for these interventions to date has been hampered due to being unable to reach an agreement on the safe management of these schemes on a public level (see section 3.2). We have an expectation that take-up of these schemes will increase over time as these issues are worked through and the technology becomes more common and cheaper. Additionally, we anticipate that the consistent communication of these incentives will also improve the visibility and likely take-up of these schemes.

4.1.5 Bespoke incentives

Companies will have the flexibility to offer bespoke incentives in their regions which might not be covered in the standardised incentive scheme. These will be funded in the same way as the standardised incentives, through the Environmental Component of the infrastructure charge. These could include incentives for SuDS solutions which are appropriate for a given context.

Bespoke incentives will not need to be offered by all companies but should still be readily identifiable in the common framework. We will conclude how this is best achieved ahead of consulting on our charging rule changes in summer 2024.

4.1.6 Consistent technical standards

We will publish consistent technical standards relating to environmental incentives which will sit within our existing charging rules. These standards will provide one source of the truth for determining which interventions contribute towards achieving an incentive and which do not. A key part of this will be establishing a fittings approach for more stretching levels of litres per person per day than the 110 l/p/d and 125 l/p/d levels currently found in building regulations.

The environmental incentives working group we have established will advise us on the drafting of these technical standards before we consult on a final output in summer 2024.

4.2 Key changes from consultation proposals

We were pleased to see both broad support for many of our consultation proposals and agreement that they were achievable ahead of April 2025. However, some proposals received a greater amount of constructive feedback and suggestions about how they can be adapted to make them actionable. We have taken this feedback on board along with subsequent engagement and are consequently proposing to adapt some of our proposals.

4.2.1 SuDS incentive

We are no longer intending to make it mandatory for all companies to offer an incentive for SuDS from April 2025, but still encourage companies to offer incentives for specific SuDS as a bespoke incentive where this is appropriate for their regions. We want our approach to complement the implementation of Schedule 3 of the FWMA10, so we are pausing before deciding at what levels and specifications water companies could incentivise SuDS installation. The environmental incentives are not designed for standards that are already

universally mandatory so any common framework for SuDS incentives needs to have regard for the detail of Schedule 3 to avoid this.

4.2.2 Reputational schemes

We will reflect further on whether a reputational scheme could be aligned with existing certification schemes and consider the extent to which such a scheme would be helpful to home buyers. We will not be formalising a reputational scheme for 2025–26.

However, we are likely to review companies' incentive offerings after the first year of the scheme to ascertain any lessons learned, highlighting good practice and identifying where improvements could be made.

4.2.3 Tiered approach

The low take-up of incentives offered for water reuse and neutrality schemes and the tight timeline between now and April 2025 means we want to focus our efforts on formulating a robust common incentive framework which incentivises water efficiency across all regions in England. Therefore we confirm that all companies should offer an incentive for water efficiency in their region and also have the option to offer incentives for water reuse and water neutrality schemes.

4.2.4 Minimum discounts

We will not require minimum values for the environmental incentives offered from April 2025. Instead, we want the incentive to be meaningful and to broadly reflect the benefits to society (or avoided incremental costs) of greater water efficiency.

5. Next steps

We have established an environmental incentives working group which will provide recommendations on the detail of the policies outlined in this document. We will consult on the necessary changes to our charging rules in summer 2024. Following this, we will publish the amended charging rules which will apply to company charging arrangements for 2025-26.

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