

## OFWAT- Consultation on Environmental incentives to Support Sustainable New Homes. July 2023.

The Home Builders Federation is the principal trade association for the home building industry in England and Wales. HBF's membership of more than 400 companies builds most of the market sale homes completed in England and Wales, encompassing private developers and Registered Providers. The majority of HBF's private homebuilder members are small or medium-sized companies.

As the main trade association for the home building industry, our members constitute one of the largest bodies of companies that will be affected by the outcome of this consultation. As such, we trust that considerable qualitative and quantitative weight will be afforded to our comments.

The document below is the summary of the representative responses from our membership and takes account of the responses of large major housebuilders, medium size and SME (small and medium-sized enterprises) as well as specialist housing providers and companies. Whilst HBF's members largely support the proposals within this consultation, they are concerned that a pragmatic, fair, balanced and considered approach should be taken.

### **Question 1: Do you agree with our proposed aim for environmental incentives?**

HBF and its membership agrees with the aims of Ofwat in pursuing an environmental incentives initiative for developers. HBF recognises the importance of embracing and developing more nature-based and environmentally sustainable approach to construction. We also recognise the importance of becoming more water resilient through new housing and informing new customers of the benefits of living in more water efficient housing.

We do not believe that greater efficiency of dwellings increases the value of the property (consultation document, page 10), which unfortunately means that additional measures to enhance efficiency even further are rarely recoverable for developers through higher sales prices. Nevertheless, for environmental and societal reasons, it is still right for developers to more efficiency incentives.

Property valuations are effectively adjudicated by valuers working on behalf of mortgage lenders and their clients. They will typically assess the value of a property using local existing comparables. Over time we would hope that higher levels of water and energy efficiency will feed through into property values, but at present these are areas generally not considered by valuers when determining whether a property is mortgageable at the price intended to be transacted at and consideration will not be given to the ongoing running costs of a property when a mortgage lender assesses the mortgagor's outgoings and overall financial position.

### **Question 2; Do you have any comments on the characteristics of good environmental incentives?**



HBF recognises the characteristics of good environmental incentives. It is important for clear and affordable environmental incentives to be offered to housing developers and contractors for the benefit of new customers and new home occupants. HBF believes that environmental incentives can be delivered via a selection of options in new housing and it is important to recognise the varying approaches that can be achieved in water efficiency and sustainable drainage opportunities in delivering new homes. Environmental incentives should be recognised by all appointees under Ofwat and capture developers of all sizes. Any environmental incentive offered should be recognised by Ofwat and other public bodies such as Defra through, for instance, the Government's 'Plan for Water' and other local and national planning authorities in their aspirations of delivering a more sustainable journey towards water demand and water drainage.

Developers currently receive poor value for money from commercial relationships with water companies. For example, the adoption of technological innovations that could support the home building industry and Government to overcome challenges around phosphate and nitrate neutrality and improve environmental outcomes by reducing discharges into waterways, are being hampered by the position taken by water companies. A regulatory framework that incentivises genuine consideration of new options to capture and treat wastewater would help improve outcomes for the natural environment and for the UK economy.

**Question 3; Do you have any comments on the extent to which any environmental incentives could or should be adapted for implementation in Wales?**

HBF support the inclusion of new appointees into the marketplace in Wales. HBF believe that environmental incentives offered in England should equally be recognised under primary legislation in Wales with Welsh Government.

**Question 4; Do you have any comments on the case studies outlined?**

HBF support the general reduction and the need for education around water reduction, water resource and water use. With regard to the case studies mentioned, it is our belief that all of Part G is still required to be recognised as means of calculating water use. Part G is an approved document and building regulation within UK construction law. HBF believe that until Part G of the building regulations are reviewed and re-written then both versions of water calculation should continue to be recognised i.e fittings and calculation approach. HBF Believe that the term 'Water Neutrality' should used with caution. Whilst industry generally supports and agrees with the careful use of water and water reduction generally, Water Neutrality should not exclusively be leveraged towards new housing developments. HBF understands that water provision remains the sole responsibility of an incumbent water company existing duties within its obligations under Section 37 of the WIA 1991. In principle the HBF do not believe that charging regulations should be used to promote SuDS, as the requirement for SuDS is due to be covered by its own legislation under schedule 3 of the Flood & Water Management Act 2010 which is already mandatory in Wales since 2019.

**Question 5; Do you have any comments on our proposed standardised incentive tiers?**

HBF is broadly supportive of the proposed tiered system proposed in table 2 under section 4.2 of the report. However, HBF does not support the inclusion of full water neutrality as this remains the responsibility of a water company and not that of the developer. Significant upgrade, investment and improvement works are required in all water company jurisdictions. This is a significant area that all companies have failed to have achieved over the last 30 years since privatisation. HBF believes that the responsible capture, control and distribution of water remains with the water company and should not be incentivised via credits, costs and scores to be passed onto the developer to achieve. Water reduction and more responsible use of water is acknowledged by the home building industry as being an



appropriate and achievable goal, and one that our sector can help to deliver but full water neutrality is not considered as something that can be outrightly proven or successfully demonstrated against. HBF stresses that caution should be applied towards creating a Bronze, Silver & Gold category tier system. There is a risk that this type of classification oversimplifies significant geographic and engineering principals that can't always be delivered from site to site. Each site will have its own unique set of geographic and geological challenges that cant always be delivered upon by using a three tier system. It is feared that conditions could be imposed on developers and contractors to deliver to a certain performance standard that cant be adequately achieved to factors outside of their control. Furthermore, any financial incentive offered therein would require transparency in relation to developer charges and the true cost to connect.

**Question 6; Do you have any comments on our proposal for a common methodology / technical standards to assess water efficiency?**

HBF agrees with a common methodology and technical standards approach to water efficiency. This will provide confidence and trust within a standardised approach across industry overseen by ofwat. A common frame work and guidance document will help ensure this level of conformity will be met. Aligning any incentive program with building regulations will again provide assurance that guidelines are consistent across sustainable new homes. Whilst a fittings approach is favoured, it is HBF's preference that the calculations approach is also considered and accepted as conforming with technical standards associated with any incentives offered. HBF agree that there should be enough flexibility in the framework such that it still allows for innovation. With water usage emerging as an increasing government issue, it is likely that there will be innovation and advancements in design and function over the coming years which will help industry achieve government and water authority aspiration in water reduction in new homes.

**Question 7; Do you have any comments on the details of our proposal for companies to offer bespoke incentives?**

In principle HBF is supportive of bespoke incentives and the interpretation and strategy to embrace them. New technologies and products are likely to enter the marketplace with government's new direction on water reduction and water re-use over the coming years and it is important that Ofwat and water companies allow for these to be introduced and captured on new sustainable housing schemes where opportunity exists.

**Question 8; Do you have any comments on the potential for reputational incentives?**

HBF are keen to promote and enhance the water efficiency benefits of sustainable new housing developments. The careful use of water and greater responsibility taken in water reduction is environmentally beneficial to everyone and this can be used to promote the ethical status of sustainable new housing schemes. However, HBF are cautious towards the introduction of reputational incentives programme. Whilst a hierarchy is understandable and measurable against, it is a concern for HBF that it could also be used as a minimum benchmark or new layer of regulation by water companies and other statutory organisations as a minimum requirement of development which would involve considerable additional policy cost. Development sites around the UK can have certain geographic and geological constraints to which is outside of their control. Imposing such minimum performance standard in those circumstances would be prohibitive and restrictive and would not be supported by HBF and its membership. If such reputational incentives are introduced it must be reiterated that they should not be used as minimum performance targets for developers, contractors and builders to perform against. Rather they should be there for a measure of guidance and success only.



**Question 9; 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.**

HBF understands that the general approach towards new sustainable housing developments is that infrastructure charges are payable before a developer builds and installs new water efficient fittings and devices into a new sustainable home. Infrastructure changes are measured and calculated at an early stage of development. It is important that any recognition and calculation towards this value is identified and set out at an early stage providing clarity and confidence that a value can be identified and attributed towards individual houses or new development. HBF understands the importance of this to its membership. Confidence and transparency is required by both water companies and developers that water efficient devices have been installed as designed against by occupation stage of a new build property. It could be that plumbing installation certificates are provided at final completion stage where building control bodies approve and sign off the property as ready and fit for occupation. This process is already in existence. Any building control approval certificate that is drawn up at pre occupation stage is evidence that a new build sustainable new home has been built correctly to the designed and approved standard. In addition to this is the process of any final water meter readings that are taken by a builder prior to home occupation and provided and fed back to a water company for payment. It could be suggested that upon producing evidence of a final occupation certificate or final meter reading that this evidence is sufficient to then release any allocated environmental initiative value to the developer.

**Question 10; Do you have any comments on how high levels of compliance with the incentive technical standards might best be achieved?**

HBF recognises the importance of trust and transparency between water companies and developers of new sustainable homes. It is important to recognise that the success of an environmental incentive can only be achieved through clear communication, inspection and up to date information on the fittings and devices installed in new sustainable homes. An allocation or conditional payment could be made after the fittings were installed. A potential opportunity to identify and capture this process is discussed in question 9 above. A sample of new homes completed prior to occupation could be carried out on a select number of properties or alternatively on a ratio basis in order to confirm compliance and assurance to water companies that the completed properties have followed the design and approved new environmental initiatives process. Disqualification from the environmental initiatives procedure could be considered as a means of incentivising builders, developers and contractors from not deviating away from pre-approved process.

**Question 11; Do you have views on whether environmental incentives are best funded as an environmental component of the infrastructure charge or as a separate charge?**

It is the view of the HBF and its membership that the funding mechanisms of how environmental incentives are generated must remain within the control of Ofwat and not that of an incumbent water company. Any funding mechanism must always remain impartial and fully transparent. Any ambiguity surrounding sourcing and funding within a water company's organisation would not be considered honest and transparent when allocating an offset value against environmental incentives offered thereafter to a sustainable new home developers or contractor. To this extent, it must be made clear that there is a significant cost to the developer in providing new devices and technologies installed within sustainable new homes in order to achieve the desired water reducing output. Thus a water company or new appointee will benefit from carbon reduction costs and other financial and environmental gains associated with delivering reduced water demand to new build sustainable homes. It is important to make clear



therefore that whilst it is fair and reasonable for water companies and new appointees to also share the benefit in value in producing and delivering reduced water, it should not exclusively and disproportionately benefit from this via increased charging and profiteering which is not also shared or passed on to the developer. Full transparency is therefore essential for this to be a success for all associated parties.

**Question 12; Do you have any comments on our proposal for guidance issued under the charging rules and how they are developed and maintained?**

HBF believe this is the responsibility of ofwat to manage and maintain throughout its internal systems & processes.

**Question 13; Do you have any comments on our approach for managing interactions with the regulatory framework?**

HBF agree with ofwat there should be a level playing field between new appointees, self lay providers and incumbent water companies. The common framework discussed in this section should also capture the same responsibilities set out for water companies as they do for new appointees. HBF believe there should be a more responsive approach to the regulation of water companies towards their asset management plan programmes which include their medium and long term investment plans. Interactions with incumbent water companies via the regulatory framework should allow for changes and adjustment to be made if instances occur such that new more important matters arise during a current investment period. Strategies should be able to be redirected towards other strategic matters should they arise.

