

## Changing Ofwat's charging rules to support the new developer services framework

The Home Builders Federation (HBF) 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.

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; What are your views on our proposal to link charges for different types of development through the use of tether ratios? What are your thoughts on the use of ratios based on industry maximum figures, not average or median figures?**

As representatives of the house building sector, we do not feel we can competently and comprehensively respond to this point and feel this could be more appropriately responded to by water companies or those within Ofwat closer to the management and supply of water services themselves. However, it is important to highlight the importance in protecting new homeowners who do not directly benefit from competition by having transparent charges as compared with those who can benefit from the option of choice from available competition. HBF believes that maintaining a clear and transparent approach to charges is preferred by industry and adding to or creating complexity will not improve the charges landscape for new development.

### **Question 2; What are your views on option 5 that companies should individually charge for separate activities involved in making service connections? Do you agree with our proposal to implement via changes to the wording of the CTWE?**

HBF understands that water companies find it convenient to bundle charges for some activities and to present them to developers and contractors. We believe it is important to that these charges are clear and fair thereby giving developers a choice of suppliers where available. HBF supports the notion that water companies should publish charges for separate and whole activities and make comparisons available across jurisdictions in the UK for



comparison and transparency purposes. However, HBF understands that geotechnical reports are already supplied to water companies as part of the connection application process and the proposals therefore being considered under this scenario should already be made. HBF believes that a clear and simple approach should be considered by Ofwat as part of their charging arrangements. Having highly complex and varying strategies and evidence collecting for the purposes of pre-construction and construction charges could create difficulty for the industry and mean the desired outcome for all parties involved in new applications fails to be achieved.

**Question 3; Do you have views on our proposals to add two new worked examples with the aim of providing additional protection for developments with limited choice? What are your views on suitable new scenarios?**

HBF supports any concept or initiative that provides industry, customers and home builders with greater transparency around price control and the avoidance of overcharging. HBF is aware of significant variances across industry that water companies charge in relation to connection and infrastructure charges and considers that companies should publish the individual charges for each activity involved in making service connections. These should also be referenced across industry in order to encourage fair and transparent charging arrangements. HBF supports the introduction of two new worked examples of housing developments of 5 and 25 properties that do not require new mains as proposed by Ofwat in their consultation document proposal. HBF supports the new scenarios and anything further that would provide customers with more confidence surrounding charging, especially those that do not benefit from available competition.

**Question 4; Do you agree with our proposed general guidance for RAG2 regarding a fair allocation of all relevant overheads across ALL expenditure areas, including developer services?**

HBF supports Ofwat's RAG2 initiative to ensure the general principal that central and departmental overheads should be added to all capital programme activities in a fair and transparent manner. This would help ensure that no discrimination to investment areas is experienced by home builders and developers operating in that region. It is critical that water companies apply the same approach to calculating overheads and cost accurately and transparently to ensure consistency and fairness across different jurisdictions in the UK. There are many examples of significantly varying costs in the UK water industry in relation to connection and infrastructure charging. HBF therefore fully endorses the introduction of Regulatory Accounting Guidelines as a consistent means to allocate and recover overheads for developer services. HBF believes that all water companies should be required to follow a consistent methodology for calculating overheads charges in relation to developer services.

**Question 5; Should RAG2 specify methods of overhead recovery for developer services? Are there any disadvantages to doing so? Are there any methods that you think would be appropriate to use across the industry that would drive consistency?**

HBF believes it is imperative that Ofwat provides water companies with clear and defined reporting requirements via the regulatory accounting guidelines in order to provide industry with clear, consistent and transparent overhead



charging arrangements. There are numerous instances around the country being reported by home builders of where water companies are not being consistent in their charging arrangements associated with connection and infrastructure charging arrangements. HBF does not believe there are any disadvantages in introducing more specific requirements around the regulatory accounting guidelines.

**Question 6; Do you agree that RAG2 could be extended to cover the recovery and allocation of overhead costs between developments with and without a mains requirement? Do you have any suggestions as to how this should be done?**

HBF supports the principal that the regulatory accounting guidelines could be extended to cover the recovery and allocation of overhead costs between developments with and without a water mains requirement. HBF does not have any suggestions on how this could be done other than to clearly set out and differentiate the costs associated with those sites that do and those that do not have water mains.

**Question 7; What are your views on our proposal to carry out a market review prior to PR29?**

HBF broadly supports an Ofwat review prior to Price Review 29 in its ambition to understand the regional market where different organisations exist and compete against one another in the same and different jurisdictions. HBF believes that customers and home builders should be protected against high costs where competition does not allow. HBF believe that Ofwat should engage with developer customers, new appointees and water companies to understand the markets, environments and barriers to entry that they experience to help inform the market review. We are also supportive of any competition test across the UK which tests and provides transparency for consistency and fairness for customers and developers around service charging. This could be furthered by referral to the Competition and Markets Authority as well as an independent investigation under the Competition Act 1998.

**Question 8; What are your views on our proposal that companies include historical variances between expenditure and revenues in setting infrastructure charges?**

HBF broadly supports the proposal set out by Ofwat in its consultation whereby companies set their infrastructure charges by taking account of historical variances between expenditure and revenue when setting infrastructure charges. This would be considered as a more consistent framework within developer services.

**Question 9; Do you agree with our proposal to enable companies to take account of upsized infrastructure when setting infrastructure charges?**

HBF broadly agrees with Ofwat for the inclusion of the proposal of reasonable costs attributed to water companies to take account of upsized infrastructure when setting infrastructure charges. Any allocation of this type would need to



be transparent with independent approved analysis to ensure fair and reasonable costs are charged to water users and customers.

**Question 10; What are your views on our proposals relating to how we accommodate changes to the provision of income offset?**

As the representative body of the house building industry, we do not feel we can competently and comprehensively respond to this point and feel this more appropriate to be responded to by water companies or those closer to the management and supply of water services themselves.

As always, we hope that our comments are received in the spirit in which they are intended and reflect the HBF's overarching desire to support key policy objectives whilst at the same time supporting our members in seeking deliverable and pragmatic solutions to policy changes.

Yours Sincerely,

**Rhodri Williams**

Technical & Sustainability Director – HBF.

