



Ms R McHugh
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Ofwat
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T/02/RF

23 January 2008

Dear Ms McHugh

**Setting price limits for 2010-2016:
Framework and approach – a consultation paper**

The Home Builders Federation (HBF) is the trade association representing the interests of private house builders in England and Wales. Our members, who include all of the major homebuilders, are responsible for more than 80% of the new homes built every year.

We would therefore ask that Ofwat take account of the fact that the enclosed response to this consultation includes comments made by HBF members and is therefore representative of the views of numerous organisations not just one.

Yours sincerely

D F Mitchell
Technical Director

CONSULTATION RESPONSE



OFWAT's - the Framework and Approach for Setting Price Limits for 2010-15

23 January 2008

HBF Response to OFWAT's Consultation on the Framework and Approach for Setting Price Limits for 2010-15

Introduction

The HBF welcomes the opportunity to respond to the above-mentioned Ofwat consultation and our comments will relate to how new residential development will be affected by this proposed Framework and Approval for PRO9.

Before we respond in detail to specific sections of this consultation we would want to convey to Ofwat our views on the housing market. At present there is a general political acceptance that there is an undersupply of new homes and the Government has set ambitious targets to increase the annual output of new homes to 240,000 a year by 2016 and to build 3 million homes by 2020. So the Sector we represent is seen by Government as having an important role in the economic stability of UK Plc.

The efficient provision of water and sewerage services is fundamentally important to any new development and will be needed to achieve these housing targets. This will require an improvement in the current position. The need for improvement was identified in a Utility Survey the HBF was asked to undertake by its Members in 2006. For both the water and electricity sectors the survey reported poor levels of service to house builders, variable policies for dealing with customers and an overall lack of accountability.

The 180,000 new homes built annually add less than 1% to the water companies' business in any given year. This may foster the belief that there is no real need to partner house builders because they have no choice but to come to these companies for water and sewerage services. This does, unfortunately, seem to be the attitude adopted by many water companies. The fundamental issue for HBF is that water companies do not see house builders as the Customer.

We are disappointed that Ofwat does not recognise the importance of the house building industry and the need for new homes in the Foreword or Executive Summary. It seems that Ofwat merely reflects the attitude of the water companies. Even the section on "Growth and New Development" consists of a mere six lines. This is a matter of grave concern to HBF because if the economic regulator of the water sector is not looking at the wider issues this bodes ill for the Water and Sewage Industry.

We would also differ from Ofwat's view that the water sector requires "vigorous competition". From our perspective, competition is not the issue. The key question is how to make the water companies more accountable. Whether this is in the form of further regulation or by

making existing voluntary standards statutory with more robust legally binding guidance is an issue for further discussion.

Comments on Specific Sections

1.3 Key Issues

From our Industry's perspective competition and accountability are areas that should be focussed on by Ofwat. We would give greater emphasis to issue of their accountability or the lack of it.

In relation to HBF's ongoing discussions with Ofwat, we have submitted what our Members see as the key issues which they need to address. This "Wish List" seeks the following:-

1. Statutory Obligations placed on water and sewerage companies in relation to all levels of service which are critical and affect the development cycle and the supply of new homes.
2. Model Legal Agreements and generic documentation across the water and sewerage industry.
3. Codes of Practice for the respective industries in relation to Health and Safety issues and the obligations under the CDM Regulations, with an emphasis on design criteria and the access of water industry personnel to development sites.
4. Transparent cost information showing details of the actual costs to provide the infrastructure.
5. Companies to have an organogram of key contacts which is communicated to developers.
6. Joined up company policies which are universally applied through England and Wales for water and sewerage.
7. Codes of Practice which have a greater legal standing than guidance on a number of issues:-
 - Water and sewerage infrastructure charges
 - Offsite network reinforcement for water and sewerage
 - The planning system and the companies' obligations for the connection of foul sewers under the "Right to Connect"
 - The management of surface water on new developments which brings together all aspects of present criteria or guidance and obligations under the right to connect to the companies' vested surface water sewers.
 - Accuracy and detail of companies' water and sewer records
 - Procedures to evaluate developments prior to planning consent

8. PR09 to provide detailed costs for large scale developments over 100 units and to set out how this has been derived, i.e. forward planning of infrastructure improvements to cater for new developments.

9. An Ofwat Determination Process which is faster or has an interim means of arbitration.

10. Listed cost information from all companies on specific items so a comparison can be made between companies i.e. water connection costs, fees, etc.

11. Legislation or Statutory Obligations for the maintenance and adoption of SuDS, supported by a Code of Practice.

12. Closer liaison between both industries through a “Management Board” and possible Sub-Groups chaired or driven by Ofwat or Defra.

3. The Right Outcomes for Consumers

Again we would highlight the point that as house builders we seem to have been overlooked as being of importance in this section of the consultation. Although references are made to certain areas of companies’ business that affects house building there is a lack of detail supporting issues.

In relation to “Security of Supply” a reference is made to the “Code for Sustainable Homes”. Over the last 18 months HBF has been involved in the Ofwat Working Group on Developer Incentives to make new homes more water-efficient. What is evident from the many meetings held is that the attitude adopted by the water companies is that the Code will make no difference to them as they will not see any appreciable reduction in water demand. Their argument is that they have no control over the number of occupiers or, more importantly to them, how people would use the water. What transpired from this Working Group was that Ofwat supported the water companies.

On the issue of leakage we notice the wording of Section 3.6.3 which talks about “managing leakage”. Surely this issue should be more assertively put, in that leakage must be substantially reduced? When the probable net increase from new homes will be less than 1% the current average of 20% total leakage is an indictment of an industry claiming that housing growth is unsustainable.

We would fully endorse Ofwat’s statements in Section 3.6.4 on metering and until meters are universally fitted to every house it will be difficult to take forward competition and have a true understanding of what overall leakage is occurring.

3.6.7 Growth and New Development

In previous Price Reviews the detail relating to this Section has been more macro economics than micro. We see that companies should be producing detailed cost plans for sites that have been identified for development in Local Plans. This is fundamentally important to enable transparency of costs for developers rather than the situation we have at present where costs substantially increase between the first enquiry about a site and the construction of the water and sewerage infrastructure. This would also facilitate accountability in relation

to the requirement of Section 94 of the Water Industry Act that sewerage infrastructure should be made available for sites to connect under Section 106.

With regard to encouraging developers to build homes that are water-efficient we would see our previous comments on the Code for Sustainable Homes as being pertinent.

We would also ask Ofwat to look at the matter of surface water management and the companies' obligations in the legislation for providing surface water sewers and how this is funded. The Water Industry Act places a duty on the water companies to drain hard standing around a plot but our members are having to use different forms of SuDS to restrict surface water run-off under PPS25. On many occasions the HBF have said to Ofwat that this is not a mechanism to enable companies to adopt SUDS. As at present water companies are being funded to provide off-site surface water sewers and do not actually do so because developers are required to adhere to PPS25. This highlights the lack of consistency of planning guidance with primary legislation.

It is interesting to note that in Section 3.9 on Sewer Flooding OFWAT state that "sewer flooding only affects a very small proportion of consumers". Yet many water companies will advise their Local Planning Authority that when developers ask to connect to foul sewers this will exceed their capacity and cause flooding. This results in a situation where planning conditions are used to stop connections which means that Ofwat is then unable to determine a dispute and developers have to pay for major sewage upgrades to meet their completion dates. Moreover, we understand that all Sewerage Authorities are required to have in place a so-called 'DG5 Register' which effectively identifies properties at risk of flooding from the existing, urban public sewer network. Furthermore, we have been advised that on instructions from Ofwat, the DG5 Register is to be updated on a regular basis and that it forms an intrinsic part of each UK Sewerage Authority's submission/request for investment funding to replace and/or provide new infrastructure in those areas at critical risk of flooding. Unfortunately, access to this data represents a further example of our Industry's continued exclusion from a number of highly relevant and important areas none more so than those connected with the Government's declared housing objectives. (On 22 January 2008 Yorkshire Water confirmed that in no circumstances would the house building industry be allowed to have access to their DG5 Register). Given the original rationale that supported the concept of sewerage infrastructure charges we have to ask why our Industry's annual contribution of around £50 million does not feature in these investment submissions. It would seem that there is a deliberate policy in place to exclude the UK house building industry from making a meaningful and effective contribution. In this respect, our accumulated knowledge and experience in respect of the Code for Sustainable Homes and how we are to meet its intrinsic technical requirements could be a very useful addition to any planned discussion forum.

Conclusion

We would conclude that this consultation stops well short of recognising house builders as customers. It does not give a clear message to water companies about the importance of providing water and sewerage infrastructure for the 45% increase in new homes being required by Government.

The theory that competition drives efficiency in the utility sector has not been proven in other sectors and any additional competition in the water sector would have a limited effect for house builders. We would reiterate that Ofwat should concentrate on making water companies more accountable.

We hope that in the near future Ofwat will not only take forward the “Wish List” of HBF issues but also address the matters raised by the HBF in this consultation response.

D F Mitchell
Technical Director