



**Government Response to  
the House of Commons  
Environmental Audit Committee  
Report – Sustainable Housing:  
A Follow-up Report**

13th July 2006



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Presented to Parliament By  
the Secretary of State for Communities and Local Government  
by Command of Her Majesty  
13th July 2006

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On 5th May 2006 the responsibilities of the Office of The Deputy Prime Minister (ODPM) passed to the Department for Communities and Local Government (DCLG).

## GOVERNMENT RESPONSE TO ENVIRONMENTAL AUDIT COMMITTEE REPORT – SUSTAINABLE HOUSING: A FOLLOW-UP REPORT

The Environmental Audit Committee of the House of Commons published *Sustainable Housing: A Follow-up Report* on Thursday 30 March, 2006. This report developed some of the conclusions and recommendations of its predecessor's earlier (January 2005) report *Housing: Building a Sustainable Future*, to which the Government replied in May 2005.

The Government thanks the Committee for its ongoing consideration of this important issue, and for its conclusions and recommendations. The Government's response to these follows.

Readers should note that since the Committee published its report, a new Department for Communities and Local Government (DCLG) has been created. The DCLG remit is to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government. Hence, where the Committee's report refers to ODPM, the Government's response refers to DCLG.

Where relevant, this response groups together the Committee's individual conclusions and recommendations and replies to them collectively.

## NEW SUSTAINABLE COMMUNITIES

1. We have never disputed the need to address the problem of housing affordability and we accept that this will inevitably result in more new homes being built, but we are concerned that consideration of the environmental impacts of these new communities ranks below a significant number of other economic and social factors. (Paragraph 7)

2. We were interested to see that ODPM has provided an explanation for what it means by sustainable communities but we remain deeply concerned at the very limited and superficial reference to the environment. For example, we would have liked to see explicit reference to the need for the homes within these communities to be built to high environmental standards, including energy and water efficiency. (Paragraph 11)

The need for new homes should be seen as an opportunity not a threat. We need to seize on the opportunity afforded by new development to build communities that are truly sustainable. New development does bring environmental pressures. However, planned strategic growth rather than incremental development, and development in the right form and with the right construction processes, will bring fewer environmental impacts as it allows for environmental pressures to be planned for, accommodated and mitigated at a strategic level. The Government is working hard to ensure that the environmental impacts of increased housing supply are mitigated, that land is used sustainably, and that we seize the opportunity to raise the environmental performance of what we build.

There are already a wide range of environmental policies in place to mitigate the environmental pressures of house building, including:

- A focus on reuse of Previously Developed Land (PDL) – planning policies have resulted in figures rising from 57 per cent of all new homes on PDL land in 1997 to 72 per cent in 2005;
- Building at higher densities – average housing densities have risen from 25 to 40 dwellings per hectare between 1997 and 2005;
- Increasing the amount of greenbelt land – between 1997 and 2003 there was a net increase of over 19,000 hectares (47,000 acres) in designated greenbelt;
- Improving the energy efficiency of buildings – changes to Part L of the Building Regulations, which have recently come into force, will further improve the energy efficiency of buildings – cumulatively this represents a 40 per cent rise in the energy efficiency of new housing in less than five years;
- The establishment of sustainable development as the central objective of the planning system (in both the Planning and Compulsory Purchase Act 2004 and Planning Policy Statement 1);
- Improved planning for open space, recreation and sport through Planning Policy Guidance 17;
- Improved waste management planning through Planning Policy Statement 10;
- Improved planning for nature conservation in Planning Policy Statement 9;
- Improved planning for development and flood risk through Planning Policy Guidance Note 25.

To address the negative trend in affordability recognised by the Committee, the Government has committed to a ‘step change in housing supply’. Fully recognising that environmental considerations must be integrated into plans for increasing housing provision, we set out a challenging environmental agenda in the Government’s response to the Barker report on housing supply, which includes:

- A new draft Code for Sustainable Homes, which we are shaping in light of the consultation;
- A commitment to regulate to achieve water efficiency savings;
- Stronger and clearer planning policies to help manage flood risk (draft new Planning Policy Statement 25);
- Mandating the use of Site Waste Management Plans;
- Allocating 10 per cent of Growth Area Funding for green space projects;
- Ensuring that locations for new Growth Points will be identified in partnership between DCLG, Defra, the Environment Agency and Natural England.

We have put in place processes to ensure that environmental sustainability is one of the key criteria for the assessment of all potential locations of growth, honouring the commitment in the Barker response that: “*Environmental sustainability will be a key criterion in determining the location of new homes.*” We have also announced that the Government expects all planning authorities to include policies in their development plans that require a percentage of the energy in new developments to come from on-site renewables where it is viable.

Our spatial planning policies are geared towards ensuring that new developments are sited in the most sustainable locations. Sustainable management of water resources, accessibility to public transport, the highest standards of flood risk management and protection and enhancement of green space and biodiversity are all fundamental to the new approach to planning which is being taken forward through the Regional Spatial Strategies and Local Development Frameworks. The planning system ensures that key stakeholders such as the Environment Agency and the water companies are consulted on these plans. Ensuring the long-term sustainability of water supplies alongside substantial housing growth is a significant challenge for all of the key parties, including the Government, the Environment Agency, regional planners and the water companies. We will, therefore, continue to give this matter serious attention.

We are now going further and are moving on:

- A new planning Policy Statement on Climate Change;
- A major review of Building Regulations so they can work in conjunction with the Code to raise standards further in future;
- Proposals for the Thames Gateway and Northstowe in Cambridgeshire to lead the way in raising environmental standards.

### **Improving the environmental performance of what we build**

3. The fact that ODPM judged that the question of whether or not to make increased levels of energy and water efficiency compulsory, needed further assessment, and so should be part of the consultation, is surprising. Given the desperate need to off-set the impact of the proposed increased numbers for new homes, the likely cost of energy in the immediate future and the dire state of the water resources in the South East of England, there can be no question that these should be compulsory. (Paragraph 21)

**4. We are pleased to welcome, therefore, ODPM's latest decision to set minimum standards of energy and water efficiency for every level of the Code but we are anxious to know exactly what these standards will be and when they will come into effect. ODPM must make these details available at the earliest opportunity. This should include an assessment of the cost and practicality implications of setting minimum standards for each level, reflecting one of ODPM's original concerns, as well as an assessment of the energy and water efficiency savings attached to each standard. (Paragraph 22)**

We are pleased that the committee welcomes our decision to set non-tradable energy and water efficiency standards at different levels of the Code.

The Government is committed to not only delivering high levels of ambition and direction through the Code, but equally giving the industry confidence in the future direction of regulation. To achieve this, the Code has been strengthened. Level one of the new Code will be set above the existing Building Regulations, with the higher levels of the Code set to achieve greater resource savings, for example, level five of the Code will introduce the aspirational level of carbon neutral homes.

The final Code will be accompanied by a full and detailed Regulatory Impact Assessment, which will set out the cost for the Code. Implementation costs to make homes Code-compliant are likely to be low and certainly for lower levels of the Code will be quickly offset by lower utility bills.

In addition, we will be consulting in the summer on higher mandatory standards for water efficiency in all new homes.

**5. We are so concerned that, despite the so-called 'strengthening' of the Code for Sustainable Homes, it is still not adequate and we would urge ODPM to take some time, properly to assess the consultation responses, and to think very hard about some of the crucial elements missing from the Code. As it stands it will still fall far short of what is needed to ensure that future housing development is sustainable. (Paragraph 29)**

We entirely agree with the Committee's recommendation that the consultation responses should be assessed properly and this is why we are taking the time to ensure that all views are considered before any final decisions are made. The consultation generated a huge level of interest, with over 2000 responses received. DCLG is currently considering the responses to the consultation in detail before publishing the revised Code.

**6. We are concerned that houses have already been built, and will continue to be built, without sufficient regard to strong environmental standards. Reliance on developers to gradually begin to "do the right thing" we believe is misplaced and is symptomatic of a fundamental lack of urgency in the Government's approach to ensuring that new housing and new communities are truly sustainable. We do not believe that this can be left to chance and we look to ODPM to provide strong leadership, not only across government, but in respect of developers and Local Authorities, who need greater support and guidance to ensure that there is no delay in introducing strong environmental standards. (Paragraph 36)**

We share the Committee's concern about environmental standards but we do not share its view that we are not doing enough to address these issues.

We have already introduced the new Part L 2006 through the mandatory Building Regulations, which have put up the standard of energy efficiency of new homes by 40 per cent in less than five years. We will be consulting on higher mandatory water efficiency standards later this year. We have made very clear our intention to raise mandatory standards in future. We believe that the review of Building Regulations and the introduction of the Code provides an opportunity to set out a clear direction of travel when raising standards in future so that industry can plan and invest.

In the Thames Gateway the sheer scale of development is a huge opportunity to improve the environmental impact of considerable housing growth, and Government is leading to ensure that the benefits are fully realised. To kick start innovation and knowledge transfer, we want to explore the scope for the Thames Gateway to become a model site for developing emerging technologies with the opportunity to export knowledge to the rest of the country and the wider world. DCLG will undertake a new feasibility study to explore the scope to make the Thames Gateway a low carbon development area within the new decade and then to move towards carbon neutrality. This important study will provide an important assessment of how far and how fast we can move to ensure cost effective changes which will support 120,000 new homes and 180,000 new jobs, as well as supporting existing jobs and communities.

The prime importance which the Government attaches to ensuring that new housing and other developments are built and located in a sustainable way is evidenced by its commitment to prepare and consult on a new Planning Policy Statement on climate change, setting out how it expects the planning process to work towards the reduction of carbon emissions in the location, siting and design of new development. We have announced our intention to consult on the new Planning Policy Statement in autumn.

The response of the house building industry to the Design for Manufacture competition, DCLG's challenge to build high quality, well-designed, sustainable homes for a construction cost of £60,000, has been very encouraging. It is worth noting that, as a minimum, all entries to the competition were required to achieve an Eco Homes rating of very good or above. A second competition, announced by Housing Minister Yvette Cooper on 17 May 2006, will focus closely on improving the environmental performance of new homes by creating small-scale eco-community developments rather than individual homes. The challenge will be to deliver either low-carbon or carbon neutral affordable homes and we are looking forward to a positive response from the property industry.

The new Academy for Sustainable Communities provides an important role in addressing the skills barriers that threatened the creation and maintenance of sustainable communities. Its overarching vision is to inspire and help people across different fields to work together in a coherent, farsighted way in delivering and maintaining sustainable communities including taking into account the skills and knowledge needed to support improved environmental performance.

It is also important to acknowledge and celebrate improved environmental performance and understanding. The DPM's Award for Sustainable Communities, launched in 2003, draws attention to outstanding examples of projects and initiatives that are delivering sustainable communities in England and shares best practice in the creation of sustainable communities on the ground, including approaches to environmental sensitivity.

**7. We cannot stress how important it is to get it right with regard to the existing housing stock. The number of new homes built each year is dwarfed by the numbers of existing housing stock in excess of 20 million homes. The Government is missing a huge opportunity to reduce the carbon emissions from those homes if it fails to grasp the nettle now and extend Part L of the Building Regulations to include the existing housing stock. (Paragraph 44)**

We agree with the Committee that the environmental impact of the existing housing stock is extremely important.

The Building Regulations set standards for the construction of new buildings and the extension, renovation, or refurbishment of existing buildings. The proposal in the original consultation on Part L to require “consequential improvements” to existing homes undergoing such work would have impacted on only a very small proportion of the existing housing stock – about one per cent in any given year. Consequential improvements are required in buildings with a total usable floor area in excess of 1,000 square metres.

The Government decided to look more strategically at the issue and to undertake a wide-ranging review of possible measures that would improve the sustainability (including energy efficiency) of the existing building stock, not just the one per cent that would fall within scope of the Building Regulations each year.

**8. Whilst we accept that the German programme to bring its pre-1978 housing stock up to contemporary energy standards is “extremely ambitious”, as Elliot Morley points out in his supplementary evidence to us, we believe that this represents the kind of ambitious, strategic thinking and planning that is so badly needed in the UK but which is so sadly lacking. (Paragraph 44)**

The ongoing review of the sustainability of existing buildings (both residential and commercial) is much wider in scope than the consequential improvements requirement under Part L of the Building Regulations. Any emerging energy efficiency proposals that are adopted will impact on the entire existing building stock, offering the potential for much greater carbon emission reductions than could have been achieved through the Building Regulations which, as explained above, affect a small percentage of the existing building stock in any given year.

**9. The resignation of one of the key players on the Steering Group tasked with developing the Code seemed to bode ill on the likelihood that critical consultation responses would be given real consideration. While we welcome the fact that ODPM has issued a press release saying that it will strengthen the Code, and Yvette Cooper has written to us, bringing this to our attention, ODPM still has a significant uphill battle to regain credibility, for the Code, the consultation process and itself. (Paragraph 17)**

10. WWF has said that all that is necessary to bring them back on board the Senior Steering Group for the Code for Sustainable Homes is, “quite simply, a statement that whatever results from the consultation period, the final code will be demonstrably stronger and go further than existing Government commitments”. We believe that if ODPM is to enjoy the confidence of the environmental world, consumers and the construction industry then this must not simply be a statement but a commitment that is delivered without further delay. We do not believe that the measures announced by ODPM on 9 March represent a significant step forward. (Paragraph 28)

The consultation process and active role many stakeholders have played in providing content and advice to take the Code forward has been invaluable. Central to this has been the role of the Senior Steering Group, which has provided and continues to provide an important sounding board for Government to ensure we make sound decisions for both short and long-term standards. We are continuing to work with WWF and they have attended the latest Senior Steering Group meeting as observers. In relation to the Committee’s point about the Code going further than existing Government commitments, we can confirm that the Code will go further than existing Building Regulations and that Code level one will be above existing Building Regulation standards.

11. It is entirely unsatisfactory that for those building in the private sector, the Code is intended only as a voluntary measure. (Paragraph 30)

12. The reality must surely be that the effectiveness of the levels and standards set out in the Code become increasingly diminished if the Code itself can be largely ignored by the Private Sector, the sector directly responsible for the vast majority of new builds in England, because it is voluntary. (Paragraph 31)

13. The whole basis of the widespread scepticism with regard to compliance with a voluntary Code is that there is little incentive for developers to raise their standards and build to the Code. Time and again we have been told that developers will do only what they are required to do. (Paragraph 36)

14. The experience of Crest Nicholson and George Wimpey UK, who are regarded as “market leaders”, offers no support for the argument made by Ministers that developers will want to follow the Code because it gives them an advantage over their competition and a favourable selling point with their customers. Not only this but it shows little basis for Yvette Cooper’s opinion that use of the Code will make homes more desirable to buyers. (Paragraph 38)

15. One of the Home Builders Federation’s concerns about the Code for Sustainable Homes is that it might, at some point in the future, become mandatory. This does not promote any confidence in either the willingness or the ability of most housing developers to adopt a voluntary Code. (Paragraph 39)

16. We do not believe that the fear that developers will find the Code too difficult, and so not comply with it on a voluntary basis, is any reason not to make it mandatory, in fact quite the opposite. It would surely suggest simply that time is being wasted in taking the voluntary approach. (Paragraph 43)

The Government announced in March that the revised Code will form the basis for the next wave of improvements to the Building Regulations for all new homes, therefore the building industry has an incentive to plan and start improving standards. In addition, energy efficiency ratings will be made mandatory for new and existing homes through the Home Information Packs. We are also considering making the assessment of all Code requirements mandatory for all new housing.

The Government has put in place an obligation for all new Government-funded house building to meet the new EcoHomes Very Good 2006 standard, which is broadly equivalent to level three of the Code. In light of this, and the requirement for all new homes to be assessed against the Code, it is expected that healthy competition will be encouraged within the building industry, and that this will incentivise both home-builders and home buyers towards more sustainable choices. The Government will continue to monitor and review the level of market transformation and the degree of uptake of the Code.

**17. If the Government regards the Code as a form of draft Building Regulations, as Ministers have suggested, then ODPM must set out a clear timescale in which Code standards will be adopted into Regulations. (Paragraph 33)**

When we announced our intention to strengthen the Code in March, we also said that the revised Code will form the basis for the next wave of improvements to Building Regulations. The committee will be pleased to note that this is still our intention. Work is underway both on the Code and on reforming the Building Regulations system to make it simpler, more transparent and less piecemeal.

**18. It remains unacceptable to us that Level One of the new Code for Sustainable Homes is not consistent with the BRE Ecohomes “Very Good” standard and is, at best, little better than the existing Building Regulations. This questions the value of the many months the Senior Steering Group spent developing the Code and surely flies in the face of the original intentions of the SBTG. (Paragraph 24)**

The EcoHomes standards operate within a tradable framework with no minimum requirement at any level for energy and water efficiency. The Government has decided to set minimum standards of energy and water efficiency for every level of the Code, rather than allowing builders to trade different kinds of improvements against each other. We are also proposing to make the Code stronger than the EcoHomes equivalent via minimum requirements for energy and water at every level of the Code, with the lowest levels of the Code clearly above the mandatory level of building regulations.

Whilst the responses to the Code consultation are being considered we have introduced, as an interim measure, a requirement on English Partnerships and Housing Corporations to meet the EcoHomes Very Good standard.

**19. We do think that the Code for Sustainable Homes should require flood risk measures, such as door gates, flood resistant under-floor vents and high level 4 electrical sockets, to be included as standard in all homes built in areas where the Environment Agency has identified a reasonable risk of flooding. (Paragraph 26)**

The Government takes flood management very seriously and we are committed to pursue measures that minimise flood risk as far as possible. Managing flood risk through the planning system is a key part of the Government's *Making Space for Water* strategy for flood and coastal erosion risk management in England. Our planning policy set out in Planning Policy Guidance Note 25 (PPG25), is the primary way of ensuring that new development is located away from areas at excessive risk of flooding. It takes a sequential approach to building in areas of flood risk, ensuring that lower risk sites are developed first and inappropriate development is avoided. It also requires that flood risk assessments are carried out for new developments, to ensure that likely flood risk to the property impacts elsewhere and mitigation measures are adequately considered.

We want to improve PPG25 and are strengthening and clarifying the policy in a new Planning Policy Statement 25 (PPS25), which we consulted on earlier this year. The new PPS25 includes an annex on managing residual flood risk, which covers flood resistance and resilience. We are analysing the consultation responses and plan to publish the new PPS25 this autumn.

We agree that measures to address flooding at building level are important and the proposed Code will award additional points where measures to mitigate flood risk are included in new development. We are also considering whether to include flood resilience measures in Building Regulations. Technical guidance is being developed through research jointly sponsored by DCLG and the Environment Agency. It will be the first time that flood guidance has been based on scientific trials of materials in flood conditions.

**20. We recommend ODPM include a requirement for legal timber to be used in all buildings at Level One. (Paragraph 27)**

We note the committee's recommendation on this issue and can confirm that the Government takes the issue of sustainable timber very seriously. 'Sustainable timber' in this context refers to forest management that must minimise harm to ecosystems, maintain forest productivity, ensure forest ecosystem health and vitality and maintain biodiversity. As part of the Code finalisation we will be looking to strengthen the use of sustainable timber. However, we await a report from the European Commission's Committee for European Standardisation (CEN) which is looking at environmental products declarations for construction products. When CEN has reported, we will consider using this as the basis for regulations and for strengthening the Code as far as possible.

**21. We very much welcome the fact that Defra seems to have engaged much more closely with ODPM on some issues relating to the creation of sustainable communities, such as the Sustainable Buildings Task Group. However, the fact that the draft Code for Sustainable Homes is such a poor document does lead us to question exactly how much influence Defra was able to exert on the Code before it was put out for consultation. (Paragraph 40)**

Defra has been very closely involved with the development of the Government's policies on sustainable communities and is working with departments across Government to take forward all of the Sustainable Buildings Task Group recommendations to which the Government is committed, including the introduction of the Code for Sustainable Homes. Defra sits on the Senior Steering Group for the Code for Sustainable Homes and has been a key partner in the development of the Code both before and since the consultation.

Defra worked very closely with ODPM (now DCLG) throughout 2005 to analyse the environmental impacts of increased housing supply, leading to the publication of the *Entec Report, A sustainability impact study of additional housing scenarios in England*, in December 2005. This analysis informed the comprehensive package of environmental measures that was announced as part of the Government's response to the Barker review.

Defra ministers continue to play an active role in fora relevant to sustainable communities, including the sustainable communities sub-group of the Central Local Partnership, which acts as the interface between central and local government on sustainable communities issues. Defra is also working closely with DCLG on the development of the Thames Gateway Strategic Framework, in order to make the Gateway an exemplar of the delivery of sustainable communities.

The Department continues to maintain a close involvement in the large number of work strands which have been taken forward since the Government's response to the Barker review, to ensure that environmental considerations are an integral part of new development and the adverse impacts of new development are mitigated as far as possible. Defra is leading on the consultation on regulating for water efficiency in new buildings, mandating the use of Site Waste Management Plans, and exploring the barriers to uptake of Sustainable Drainage Systems.

Defra is currently working in partnership with DCLG, the Environment Agency and Natural England to assess the sustainability aspects of bids for Growth Point status, to ensure that the proposed locations for growth are environmentally sustainable and realistic in terms of the supporting infrastructure they require. We are collectively giving very close attention to the environmental implications of local authorities' Growth Point proposals and, further to our announcement of 20 June, will be working closely with them over the next few months to see how any significant issues might be resolved.

**22. It was disappointing and frustrating to find that there had been no significant improvement in either compliance or enforcement of the Building Regulations. We call upon ODPM urgently to review the resources and methods of enforcement in order to ensure greater compliance. (Paragraph 41)**

**23. Despite our disappointment at the limitations to the revisions made to Part L of the Building Regulations, we applaud ODPM's decision to force early compliance with them and see this move as evidence that ODPM can react with a sense of urgency on occasion. By acknowledging that the impact of climate change takes precedence over long lead-in times to allow the building industry to get its house in order, we believe this also sets the precedent for ODPM to move much more quickly, not only to strengthen the Code for Sustainable Homes, but to apply equally tight timescales for compliance with it. (Paragraph 45)**

We welcome the Committee's interest in these issues. We have previously announced our intention to review the Building Regulations. The review will focus on how compliance can be improved and will also ensure that Building Regulations are optimally aligned with the Code for Sustainable Homes.

We will approach a wide range of stakeholders for their views on how the current system is working.

We are currently considering the drivers for change and how alternative approaches to regulation, enforcement and compliance might work alongside a strengthened Code for Sustainable Homes.

In addition we continue to work with building control bodies to see how enforcement with the new tougher energy performance standards that came into effect on 6 April 2006 can be improved cost effectively. This includes amended regulations to improve compliance by requiring air pressure testing and establishing new competent person self-certification schemes. We also have underway the largest ever training and dissemination programme for new Building Regulations. This programme of seminars, regional roadshows and workshops targeted at building control surveyors in both the public and private sectors started in September 2005 and will include an e-learning pack for every building control surveyor.

### **Fiscal incentives**

**24. When we launched this inquiry we asked whether the Government should be introducing fiscal measures to reward higher building quality and greater environmental performance. The overwhelming response to that question was yes. (Paragraph 50)**

**25. We believe that a vicious circle currently operates in the property market. Not only are there currently no incentives for home buyers to want to buy properties built to high environmental standards, but there are also no incentives to encourage developers to build them. Trying to address this problem through voluntary codes or publicity campaigns alone is simply not enough. Fiscal measures which offer either real savings or significant penalties have to be introduced. (Paragraph 55)**

**26. The German approach to fiscal incentives contrasts sharply with the lacklustre way in which ODPM, Defra and the Treasury have responded to the question of fiscal incentives, which not only speaks volumes about the real level of importance and commitment afforded to this issue, but also paints a very depressing picture of complacency and apathy which we believe is all too evident in these departments. (Paragraph 66)**

Improving the energy efficiency of buildings is important for protecting the environment, and using fiscal measures – as part of a range of measures – can be an effective way for Government action to achieve this aim. When considering how to take action, it is important that the Government selects the right instrument and, as part of this, needs to take account of not just environmental but also wider economic and social objectives. In particular, it is important to consider the potential distributional impact of using fiscal measures to raise energy efficiency standards in buildings and whether other forms of intervention – such as regulation and grants – can provide a more targeted option.

Alongside other measures, such as regulation and voluntary codes, fiscal measures have been introduced to encourage improvements in energy efficiency in the housing sector. These include reduced VAT rate for professionally-installed energy-

saving materials and microgeneration technologies, and enhanced capital allowances for energy-saving technologies. The Landlords Energy Saving Allowance was also introduced to tackle the particular market failure that exists in the private rented sector. The Government continues to consider further ways to encourage energy efficiency improvements in buildings, taking account of wider economic and social objectives.

In respect of driving the sustainable home-building agenda, it is not accurate to suggest that the Government is relying on market forces alone. We are combining a number of approaches which will help to realise the benefits of higher build quality and environmental performance. The Committee itself refers to publicity campaigns and education, for example. But these are not the whole story, and our wider approach includes:

- Clear leadership: the requirement for public sector build quality to meet high environmental standards (broadly level three of the Code) from 1 April this year will drive performance across the board;
- Market transformation: we have already referred [Ref Q21] to market transformation in some areas and the speed at which this has happened. For example, the cost of manufacturing condensing boilers used to be at least twice that of conventional boilers. Now there is barely any difference in the manufactured cost, but higher standards are in place;
- Working with the house building industry and environmental organisations to encourage take-up of the Code and to identify barriers to achieving a higher proportion of low-carbon and zero-carbon homes;
- Enabling and encouraging the driving up of standards in existing stock. Energy Performance Certificates, due to be introduced throughout the UK in all residential and public buildings by 2008, will further demonstrate the energy efficiency of a property and will be compulsory for all homeowners as part of the Home Information Pack. Budget 2006 announced a number of measures aimed at encouraging household energy efficiency, including an extra 250,000 installations of subsidised insulation in British homes over the next two years, funding for local authority-led publicity and incentive schemes, trialling the use of 'smart' energy meters and a new voluntary initiative with major retailers to reduce the energy use of consumer electronics.

**27. We recommend that HM Treasury should consider reducing both Stamp Duty and Council Tax for those homes built to high environmental standards. Any necessary consultation process these proposed reductions might prompt should be completed in advance of the 2007 Spending Review so that cross-Government discussions can be better informed. (Paragraph 59)**

More than 45 per cent of homebuyers are exempt from stamp duty because they purchase property valued under the £125,000 starting threshold or under the higher £150,000 threshold available in 2000 enterprise areas. For these homebuyer's stamp duty reductions would have no impact. More than 80 per cent of homebuyers are either exempt from stamp duty or pay only the one per cent tax rate. This limits the scope for meaningful incentives for a large majority of buyers and would have little impact on affordability. It is also important to remember that schemes which subsidise or reward action, which has already taken place or would take place anyway, can end up with very costly dead weights and therefore limited cost effective impact.

Environmental standards in new build housing are being improved through regulatory measures such as Part L. It would clearly be unjustifiable to exempt from stamp duty developers who are simply complying with existing regulations. A stamp duty exemption could also be counterproductive by subsidising regulatory requirements (and therefore not leading to additionality).

Council tax is currently being reviewed by Sir Michael Lyons as part of an independent inquiry into the funding of local government, which will report before the end of this year. The Government will consider the case for council tax incentives in light of Sir Michael's recommendations.

**28. We recommend that HM Treasury revises the current VAT rules concerning both new build and refurbished homes built to high environmental standards. Once again, any consultation process should be completed in advance of the 2007 Spending Review so that cross-Government discussions can be better informed. (Paragraph 61)**

Our flexibility to introduce reduced or zero rates of VAT are governed by long-standing agreements with our European partners. These agreements allow the UK to zero rate the construction and sale of new residential buildings. However, they do not allow us to extend our zero rates or introduce new ones. To harmonise the VAT rate for new build and other repair work would require removing the zero rate from the sale of new residential buildings, which the Government has no current plans to do.

The Barker Review of Housing Supply examined the possibility of applying VAT to new houses but found that the lack of flexibility and disparate regional impacts made applying VAT to new build housing problematic. The Review therefore recommended that the Government considers a Planning-Gain Supplement (PGS). The Government responded in the 2005 pre-budget report by announcing a consultation on a PGS.

European law does allow member states to apply a reduced rate of VAT for some residential refurbishment services. To date, the Government has only introduced reduced rates where they are convinced that they offer the best-targeted and most efficient support for its objectives compared to other options. In line with its household energy efficiency objectives, the Government has used this provision to introduce reduced rates for professionally-installed energy-saving materials in the home such as insulation and solar heating and has extended this reduced rate several times, most recently to include ground source heat pumps and in the 2005 pre-budget report to cover wood-fuelled boilers.

We continue to keep under review how our housing and environmental objectives can be achieved through use of the tax system.

**29. We recommend that HM Treasury should examine the scope for a reduction of the rate of Planning Gain Supplement to be offered to developers who build homes to high environmental standards. This work should be done in advance of the 2007 Spending Review so that cross-Government discussions can be better informed. (Paragraph 62)**

The Government has consulted on the scope of PGS, including on a lower rate for brownfield land. The Government is considering responses made to the consultation, including those that make a case for a lower rate of PGS for homes built to high environmental standards, and will make further announcements on PGS by the end of the year.

This point was also raised at an evidence session with the ODPM Select Committee and Yvette Cooper on the Planning-Gain Supplement on 18 May this year. We agreed then that this was an interesting idea which deserved further consideration. However, it is unclear whether such a proposal would make practical sense, given that PGS is a charge on the land granted planning permission, not on housing at the point of completion. But this proposal will be kept under review. We will note the Committee's recommendation as part of our wider consideration of the consultation on the PGS and make further announcements on PGS by the end of the year.

**30. We find the Treasury's desire to be "proportionate" and its reluctance to impose "a high administrative burden on Government agencies", not only strategically short sighted but woefully inadequate. It would also appear to contradict the Prime Minister's views on tackling climate change. (Paragraph 64)**

The Government is committed to maintaining the UK's excellent regulatory outcomes while reducing the associated administrative burden. A Better Regulation Action Plan was set out in May 2005 to implement the recommendations of the Hampton and Arculus reports. We do not believe that there is an inherent contradiction between reducing administrative burdens and tackling climate change. Specifically, we aim to eliminate all unnecessary burdens, as a reduction can increase compliance by making regulations easier to understand, and by focusing enforcement on riskier areas. A lower volume of higher-quality regulation will significantly enhance our prospects of success.

We believe that this approach is entirely consistent with the Prime Minister's evidence to the Liaison Committee, where he underlined his belief that critical decisions must be taken and implementation started before the expiry of the Kyoto Protocol (2012).

**31. If it is the case that the Treasury has the final decision on whether or not any fiscal incentives should be introduced, then the response of the Treasury to this inquiry suggests to us that any roundtable discussions that do take place are very unlikely to result in even a commitment to consider seriously the suggestions we, and many others, have set out. We can only hope that the conclusions of the Stern Review, when published, will result in a much needed change of attitude. (Paragraph 67)**

Fiscal measures are considered by the Chancellor as part of the budget process and are kept under review.

Sir Nick Stern is leading a major review of the economics of climate change to understand more comprehensively the nature of the economic challenges and how they can be met in the UK and globally. The review is being taken forward by a team jointly funded by the Cabinet Office and HM Treasury and will report to the Prime Minister and the Chancellor by autumn 2006. It takes place within the context of existing national and international climate change policy.

## **Providing infrastructure alongside housing growth**

32. We consider that with only ten years left before the Government's own deadline of 200,000 new homes per year by 2016, to delay discussing how to fund the infrastructure for much of that development until the Comprehensive Spending review in 2007 represents a massive planning failure. (Paragraph 70)

33. Given the Government's intention to build 200,000 new homes per year by 2016, and the often very long lead-in times needed for any significant infrastructure to be completed, there would seem to be a fundamental problem with relying too heavily on the Planning Gain Supplement as a method of funding. (Paragraph 71)

34. We remain deeply concerned that ODPM is determined to build new homes first and then worry later, if at all, about how the supporting infrastructure can be provided. The communities that are created as a result of such a short-sighted policy will be anything but sustainable. (Paragraph 73)

The commitment to ensure that housing growth is supported by the provision of necessary infrastructure, in the right place at the right time, is at the heart of the Sustainable Communities Plan and the Government's response to the Barker Report. This includes vital environmental infrastructure for water supply, sewerage, waste treatment and disposal, flood management, provision of green space, and public transport systems. As we stated in our response to the Barker Report, we will ensure that adequate funding for infrastructure is available on the right timescale, in step with growth.

It is certainly not the case that the consideration and delivery of infrastructure funding have, in some sense, been 'put on hold' until after spending decisions have been taken as part of CSR07. Funding for infrastructure continues to be provided to support the creation of sustainable communities and recent progress in this area has been good. For example:

- The Department for Transport (DfT) has committed or planned around £3.5 billion to schemes in the four Growth Areas. The joint DCLG-DfT £200 million Community Infrastructure Fund is supporting a large number of housing related transport projects across the Growth Areas, such as transit schemes in the London Thames Gateway area and railway station improvements at Milton Keynes.
- The Department of Health has made special provision with an additional £20 million capital and £40 million of revenue funding over the period of 2004-2006 to support health services in the four Growth Areas.
- The Department for Education and Skills has reviewed the way in which capital resources are allocated to ensure that new schools and learning facilities can be funded as the communities are built, not at a later date.
- The Department for Culture Media and Sport and their statutory bodies (Arts Council England; Museums, Libraries and Archives; Sport England; English Heritage; and CABE) are also working directly with DCLG to ensure that future growth plans include a robust cultural and sport element.

In addition to direct funding, we have also been working hard to ensure that the Growth Areas have strategic plans to ensure that infrastructure is planned as an integral part of growth. DCLG and its local delivery vehicles are working closely with partners across Government, private sector and community sectors to ensure that the necessary infrastructure is there to support planned housing growth in these priority locations.

In November 2005 the Government announced its intention to develop a *Strategic Framework for the Thames Gateway* – a document which will provide a comprehensive framework to shape and guide investments, decisions and actions; to join up development funding and recurrent expenditure, and to integrate economic growth, public service provision and housing development. The Strategic Framework will be an important tool in co-ordinating infrastructure delivery across a range of key partners to ensure that the Thames Gateway is a world class 21st century development.

In the other Growth Areas, strategic growth plans are already being developed to inform growth ambitions. For example in Milton Keynes, Milton Keynes Partnership is in the process of producing a new Plan for Milton Keynes – MK2031 – which will act as a stepping-stone for future statutory development plans at both regional and local level. This plan will include proposals for new schools, health centres, parks and open spaces as well as identifying where housing, jobs and transport links will be located in the future – ensuring that the future needs of this expanding community are understood from the outset of the planning process.

In achieving the ambition to reach 200,000 dwellings per annum by 2016, the Government announced a New Growth Points initiative which is identifying, in partnerships with local authorities, potential locations for accelerated housing growth. In support of the growth, DCLG is making £40 million available in 2007/08 through Local Area Agreements to fund an initial pilot round of capital projects for New Growth Points. This money will be provided to help these places to overcome local infrastructure problems, unlock sites for new housing and improve the environment. Bidding guidelines for this capital fund were issued to interested local partnerships in December 2005. Growth proposals and funding bids were received by 31 March 2006 and a decision on provisional New Growth Point status (subject to full debate and testing through the Regional Spatial Strategies (RSS) process) is expected in October 2006. On 20 June we announced a list of areas which we will be having more detailed discussions about over the next few months. The more detailed proposals for growth, which local partnerships are developing, will be considered as part of the DCLG growth programme in light of resources available from Comprehensive Spending Review 2007 (CSR 2007).

In her written statement of 20 June announcing the New Growth Point bids, Yvette Cooper stressed that in going forward we also need to ensure that this growth is sustainable and well planned, acceptable environmentally and realistic in terms of infrastructure, particularly transport. The new growth proposals will need to demonstrate a good balance between homes and jobs and improved environmental sustainability. Indeed, the new growth points scheme is a significant opportunity for these locations to become exemplars of sustainable development. This includes the ability to enhance and extend green infrastructure – both green spaces and conservation sites – and to build more sustainable homes to high standards of

design, with less demand on resources and with the right provision for water supply, treatment and flood risk. We will need to be assured that pressures on transport can be realistically managed, where necessary, including demand management. In taking forward these proposals for more detailed assessment we will continue to work closely with colleagues across Government including the Department for Transport, Defra, the Environment Agency, Natural England and CABI to look at these issues in more detail.

Parks and green spaces are a vital element of sustainable communities. The Government is therefore investing in ensuring that new and existing communities in Growth Areas have access to good quality green space networks. DCLG is spending 10 per cent of its Growth Area funding on green space projects in the Growth Areas to ensure that the important environmental functions of green space, including providing shelter and urban cooling, protecting biodiversity and mitigating flood risk, in addition to amenity benefits, are provided in line with housing growth ambitions. CABI, supported by DCLG, is providing advice and support on developing green space strategies and delivering projects in those areas. DCLG and Defra jointly published *Creating Sustainable Communities: Greening the Gateway* in January 2004, setting out the Government's vision for a network of functional green space in the Thames Gateway. In addition, every local authority has been encouraged by DCLG to have a Green Flag Award winner by 2008. Defra is working to resolve the long-term management issues regarding integrated urban drainage, including the use of Sustainable Drainage Systems (SUDS) to remove administrative barriers to the more widespread use of this important form of surface water management in new developments.

In order to help local communities fund and deliver the infrastructure necessary to support housing growth, the Government is also consulting on Kate Barker's recommendation for a Planning-Gain Supplement. The PGS consultation paper restates the case for capturing land value uplift for the wider benefit of the community and describes how a workable and effective PGS could function. The consultation sets out options for allocating PGS revenues, informed by the following overarching principles which were reiterated at Budget 2006:

- (a) PGS revenues will be dedicated to finance additional investment in the local and strategic capital infrastructure necessary to support sustainable growth; and
- (b) to maintain critical links to local delivery, the Government will ensure that a significant majority of PGS revenues will be retained for infrastructure priorities within the local authority area from which the revenues derived.

As a result, if PGS was introduced, once it had become established, local government would in overall terms receive more funding through PGS than was raised through s106. A portion of PGS revenues would also be dedicated to strategic infrastructure of regional importance, potentially through an expanded and revised Community Infrastructure Fund (CIF).

However, the Government recognises that PGS alone cannot fund the infrastructure needed to support housing growth, so alongside dedicating PGS revenues to such infrastructure, the Government has announced a cross-cutting review into supporting housing growth as part of the 2007 Comprehensive Spending Review.

This review will explore the social, transport and environmental infrastructure implications of housing growth in different spatial forms and locations and assess the mechanisms for planning and delivering housing growth-related infrastructure provision. This will include the use of targeted investment through the Community Infrastructure Funds and Growth Areas Funding to support the fastest growing areas as well as ensuring that departmental resources across government are targeted appropriately for providing the additional regional and local infrastructure necessary to support future housing and population growth.

For the Government to be successful in its delivery of new communities that are sustainable environmentally, socially and economically, the essential decisions on investment in infrastructure needed to support planned housing growth need to be taken in the context of existing spending programmes, strategic tools such as co-ordinated growth plans and the Government's future spending plans, including robust assessment as part of the Comprehensive Spending Review process. The Government is confident that this combined approach will lead to the development of sustainable communities.

**35. The answer to the problem of homelessness, overcrowding or indeed, helping people get their feet on the first rung of the housing ladder, is not to throw up badly constructed houses in areas which are poorly supported by essential infrastructure. To do so would be ignoring the Government's own definition of sustainable communities as "places where people want to live and work, now and in the future". (Paragraph 72)**

The Government agrees.

## **Water supply**

**36. We do not believe that there is a cure-all solution to the water supply issues in the South East and if existing, as well as new, homes are to enjoy a secure water supply, and if the regions rivers and water courses are not to be decimated by the increased demand, then much rests on the water companies ability to meet that demand, reduce the amount of water lost through leakage, and raise awareness of the water efficiency measures people can adopt at home. (Paragraph 82)**

There is no single solution to what is a very complex problem, caused by a number of issues including climatic variation, consumer behaviour, attitudes towards the use of domestic water supply and increasing and smaller households. Consumption per capita tends to be higher in the south east than the UK average. The Government's policy to the management of water resources is predicated on the 'twin track' approach of managing demand and developing sustainable resources where needed.

Solutions need to be pragmatic, taking account of the reasons for increases in water demand over the past 25 years and addressed by a variety of mechanism, including:

- The Government recognises that there are environmental limits on abstraction for the public water supply, and indeed all abstractions. The Environment Agency's powers have recently been strengthened to allow more sustainable management of water resources. Changes have been made to the system of abstraction licensing including:
  - time limits for all new abstraction licences;

- greater flexibility to raise or lower licensing thresholds according to local pressures on water resources; and
- the proposed extension of licensing to abstractors of significant quantities presently outside the system.
- Water resource plans are currently produced by water companies on a voluntary basis but will become mandatory under the Water Act 2003, the aim is to bring the new duty to plan into force in 2006/07. The Secretary of State will be able to take a view on the adequacy of these plans – for example whether enough is being done to reduce leakage and demand – and Ofwat will take his views into account when setting price limits as part of the quinquennial review of water prices. Water companies have a statutory duty to promote the efficient use of water by their customers. This includes activities such as providing information to customers on how to use water efficiently, offering cistern displacement devices, subsidised rainwater butts and home/business water audits.
- The Government has established the Water Saving Group (WSG) to promote collaborative action on water efficiency. The Group is chaired by the Minister of State for Climate Change and the Environment and meets every six months. There are five broad work streams and Ofwat is leading on proposals to identify and apply best practice for the promotion of water efficiency by water companies.
- The Government accepts that it has a key role to play in promoting and encouraging water efficiency through regulation, setting standards, fiscal incentives and other means such as through the Code for Sustainable Homes.
- Ministers have also indicated their intention to introduce minimum regulatory standards of water efficiency. There will be a joint DCLG/Defra consultation on possible ways of achieving this in the summer, with the aim of making the minimum standards mandatory for new and existing homes plus the domestic uses of non-household buildings. We will aim to make regulations in 2007. This will underpin the more aspirational standards for new homes at levels 1-5 of the Code for Sustainable Homes.

**37. The fact that the Environment Agency is now warning that standpipes and rota cuts may be necessary this summer, creating a real risk that water customers will have their access to water rationed in some way, would seem to suggest that current water company plans are in danger of failing. As climate change bites in the South East we can expect to see these weather patterns repeated more frequently and we cannot help but be deeply worried about the South East's ability to cope with the increased water demands as a result of the Government's intention to build 200,000 new homes per year by 2016. (Paragraph 84)**

Water resource planning is designed to give customers a reasonable security of supply. However, it cannot guarantee that customers will face no prospects of restrictions due to extreme circumstances. Water companies plan on the basis of having as little rainfall as seen during the drought of 1933/34, which in statistical terms is a one in one hundred year event. To plan to meet all demands in irregular extreme events would place a significantly greater strain on the environment and customer bills. To ensure limited disruption, the drought planning process in place sets out how companies will deal with those occasions when water is more scarce than usual and some restrictions are inevitably a feature of drought plans.

An important element of the water companies' long-term planning process is the consideration of changing demands – factoring in the impact of new customers and improving water efficiency. Housing growth is one of the key considerations that influence the demand for new water supply and as part of the 2005-2010 period, Ofwat took into account nearly 1 million planned new connections, including around 700,000 new dwellings in England in the 2005-10 period. In addition, Anglian Water has reported they have been able to accommodate an increase of 20 per cent in households, but water supply is at the same level as 1989 as a result of successfully managing their water resources through various measures including water efficiency and reducing leakage.

The Sustainable Communities Plan set out the Government's ambition to build an additional 200,000 dwellings in the four Growth Areas by 2016 to redress the housing supply in-balance. It is a fact that the demand for new housing has increased by 30 per cent, whilst the rate of house building has fallen by 55 per cent over the past 30 years. At the time of the release of the plan, the Government committed to testing the locations for growth through Regional Planning Processes, providing an open forum for examining such issues as water supply and any potential issues that may constrain growth ambitions. In the growth area of Ashford, it was apparent from the outset that further work was needed to take into account water supply issues. Government, in partnership with the local council, Environment Agency, water authorities and other stakeholders, developed an integrated water management strategy to ensure an adequate and sustainable supply of water and efficient and ecologically acceptable treatment and disposal of wastewater to support plans for growth.

The Environment Agency and water companies are both statutory consultees for Regional Spatial Strategies (RSS) and Local Development Frameworks (LDF). They play an important role in informing the relevant planning body and independent inquiries at key stages of the plan-making process. The planning system is concerned with making adequate provision for water resources in the context of future development, both at regional and local levels through the RSS and LDFs. In addition to this, planning authorities will become statutory consultees on the water company water resources management plans, when these plans are put on a statutory basis (expected in April 2007).

The combination of the water companies' long-term planning processes, combined with the development and review of Regional Spatial Strategies, will provide a robust framework for the consideration and resolution of water supply issues as part of the Government's ambitions for housing growth.

**38. Thames Water has told us that from start to finish a new reservoir would take 20 years to plan, develop and then build. This presents a fundamental difficulty given that Thames is responsible for a significant proportion of the water which will have to be supplied to many of the new communities planned for the four Growth Areas. If ODPM remains wedded to the target of building 200,000 new homes per year by 2016 then it seems clear to us that some of the necessary water infrastructure will not be ready in time. (Paragraph 86)**

It is precisely because of the long planning horizons for new water infrastructure such as reservoirs that the Government has put in place measures to ensure that water companies plan for the long term. Since 1999 the companies have had long-term water resource plans and these will shortly be required on a statutory basis.

These 25-year infrastructure plans are a critical tool which helps guide water companies' future investment and plan responses for future water demand. Reservoirs are not the only option for increasing supply, but do take the most time to plan and construct. Other options, which can be delivered much more rapidly, include bulk transfers of water between companies, new groundwater or river abstractions and desalination. Each option will need careful examination of the environmental, social and economic impacts. Each individual water company plans include a selection of these options.

In addition, DCLG works closely with Ofwat, the water regulator, to ensure that new household growth projections are considered as part of a five-yearly cycle for water pricing, providing an important framework to consider future investment in water infrastructure.

However, building new major infrastructure, such as reservoirs, is but one option to be explored within the Government's 'twin-track' approach to water management. As well as engineering solutions, there is still scope to reduce demand, which may offset, or possibly remove, the need for new reservoirs. For Thames Water, in particular, the need to reduce leakage must still be a top priority: its leakage rate of around 900 Ml/day (which equates to the daily consumption of more than 5 million people) is significantly greater than the likely yield from its proposed new reservoir (estimated at around 350-400 Ml/day).

**39. If Folkestone and Dover water company can make a successful application for "water scarcity status" on the basis of concerns about meeting demand over the next ten years, then most of the water companies in the South East of England can, and will, make similar cases. Whilst this is not an issue for those buying new homes in the four Growth Areas, as their homes will have meters anyway, it will certainly impact on existing residents in those regions who will have water meters imposed on them. We are certain that this possibility will not have occurred to many living in these regions and ODPM and Defra will need to work quickly to address the many questions people will have. (Paragraph 90)**

Water metering will make a significant contribution to the management of demand in the long term. The Water Saving Group is looking at ways of further increasing metering in areas of water stress, building on the existing area of water scarcity provisions.

The Government recognises that some other water companies would be interested in the outcome of Folkestone and Dover's application for water scarcity designation, but to date there have been no further applications. Some companies have adequate resources or may be able to do enough by other means – managing leakage or through water efficiency initiatives. The Folkestone and Dover decision does not open the gates to universal compulsory metering throughout England and Wales. Each case must be judged on its merits but the Water Saving Group unanimously agree that compulsory metering must be an option that companies consider in water stressed areas.

The introduction of water meters must have regard to the interests and concerns of customers. The Consumer Council for Water (CCWater) is looking to find the best methods of passing on advice about water efficiency as part of its work with the Water Saving Group, we are also looking at ways to improve the uptake of targeted assistance under the vulnerable groups regulations.

**40. People suffering from serious difficulty in paying their bills should be helped through the benefits and tax credit system. We welcome Elliot Morley's commitment to "pay particular attention to the sensitive introduction of meters to households and to the effects on customer bills, especially of those least able to pay". (Paragraph 91)**

The Government has done a great deal to address the issue of water affordability by tackling poverty through the reform of the tax and benefits system that has led to benefits for vulnerable groups.

The Water Industry (Vulnerable Groups) Regulations were introduced on 1 April 2000 to help people who might otherwise be afraid to turn on their taps, possibly compromising their health and the health of others because of worries about paying their bill. Households are eligible for the vulnerable group's tariff if they are metered, in receipt of certain income-related benefits, and suffer either from medical conditions which cause substantial increase in use of water or have three or more dependent children under the age of 19. Defra, Ofwat, the Consumer Council for Water and Water UK are working together to improve take-up of the tariff.

Defra is currently co-ordinating an affordability pilot in the South West to better understand how a variety of measures (increased uptake of benefits, metering and water efficiency devices) might help people pay their water bills.

**41. The fact that so much water is still being lost through leakage is also unacceptable. Whilst we accept that water companies are working to reduce leakages, and we acknowledge that some of our water infrastructure is old, it is clear that unless real progress is made in dealing with the unacceptable levels of water lost through leakage, it is going to be very difficult to justify imposing restrictions on use, or introducing compulsory water meters. (Paragraph 92)**

**42. Whilst loss of water through leakages continues at unacceptable levels it is going to be very difficult to convince consumers that the water companies are doing their part in saving water. (Paragraph 92)**

Leakage rates have come down since this Government took office. Following the Water Summit in 1997, Ofwat set targets for water companies to reduce leakage. As a result, leakage has been reduced by 20 per cent in England and Wales and all but three water companies (Thames Water, United Utilities and Cambridge Water) met their leakage reduction targets in 2004/05. Most water companies are now operating at their economic level of leakage – the level at which it would cost more for a water company to further reduce its leakage than to produce water from an alternative source. However, the Economic Regulator will keep the leakage targets under review, ensuring that the targets are taking account of costs, technology and best practice.

However, it is essential that all water companies continue to deliver in line with their leakage reduction targets. Prudent water use by consumers must be matched by water companies improving their leakage performance. Ofwat has said they will take appropriate action if companies persistently fail to meet their leakage targets. Leakage will never be completely eliminated since there will always be many leaks too small to find which are not economical to fix. Water companies in England and

Wales manage distribution networks with a total length of approximately 335,000km, with almost 24 million connections to properties, all of which have the capacity to leak. However, new technology and improved management techniques should improve the finding and fixing of leaks in the future. Government therefore expects the economic level of leakage to decrease further over time.

Consumer awareness of the fact that there is a level below which leaks are no longer economical to fix is very poor and there may also be a false perception that it is the companies, not their customers, that meet the cost of fixing leaks. The Government agrees with the Committee that public awareness of these issues needs to be improved. This will be done as part of the education strand of the Water Saving Group's work stream on 'Understanding and changing customer perceptions and raising awareness' led by the Consumer Council for Water.

**43. There is little doubt that if we are to address seriously the rising trend in the demand for water, a number of the options available to us represent a significant challenge and will only be achieved as the result of major behavioural change. We support the Environment Agency's "twin track approach" to balancing the social, environmental and economic needs of housing growth. (Paragraph 93)**

The Government welcomes the Committee's endorsement of our twin-track approach. We are working hard to introduce a range of measures which seek to balance demand and supply of water.

**44. Despite the media coverage of the current and prolonged drought in the South and South East of England, despite the pictures of half full reservoirs, and despite the increasing awareness of the impact of climate change on the South and South East of England, public awareness of the extent to which individual households are both part of the problem, and the solution, is very poor. (Paragraph 94)**

The Government agrees that there is work to be done to increase the awareness of the value of water, and in particular that it is a finite resource. There are a number of organisations that contribute in promoting these messages, including the Environment Agency, the water companies and the Consumer Council for Water.

As noted in our reply to paragraph 42, The Consumer Council for Water is leading a work stream of the Water Saving Group on 'Understanding and changing customer perceptions and raising awareness'. This work stream includes undertaking research to better understand customer knowledge of water resources and their views on water efficiency and consumption. Based on the results of the research, the Consumer Council for Water will take the lead within the Group in updating and improving current sources of information and advice to customers. This is likely to include employing social marketing approaches to help engage consumers to change attitudes and behaviour.

**45. The fact that Folkestone and Dover Water have won the right to impose compulsory water meters on its customers will certainly concentrate the minds of consumers and raise awareness of the issues around water supply and the possibility that other areas of the country may yet have to have compulsory water meters too. This growing awareness must be exploited by Defra to really raise the profile of water supply issues. (Paragraph 95)**

The Government recognises that the decision to designate Folkestone and Dover Water Services as an area of water scarcity raised the profile of water supply issues, particularly in the South East. The decision attracted media attention both locally and nationally.

When the Folkestone and Dover decision was announced, Defra emphasised that the Government takes sensible water use seriously and that water is a precious resource that we can no longer simply take for granted. The designation as an area of water scarcity is not taken lightly but is dependant on the water resources and demand position in each individual area. It is important to note that seeking water scarcity status is not a reaction to a period of dry weather, rather it is part of a company's longer water resources planning strategy.

The Government remains committed to ensuring a sustainable supply-demand balance and will continue to work with the industry and key stakeholders to ensure that all parties, from water companies to individual customers, recognise that they have a part to play in achieving this goal. Defra has set up the Water Saving Group to look at ways of promoting the efficient use of water in households in the medium and long term and is working towards this with the industry and stakeholders. This work includes issues of public awareness and public attitudes to water.

**46. Once existing consumers in the South and South East of England begin to realise just how dire the current situation is, how much climate change is going to impact on their daily lives in the future, and that the Government's continued commitment to build 200,000 new homes per year by 2016 will only exacerbate the problem, the Government is going to have to work very hard to win over public opinion. (Paragraph 96)**

The Government is very aware of the possible impacts of climate change, which will be felt across the UK and the world, not just by those in the South East. It is within this context that the Government has the intention to use Building Regulations, the Code for Sustainable Homes, and the forthcoming Planning Policy Statement on Climate Change to support the long-term direction of travel towards low carbon and then carbon neutral development.

The Government believes that the scale of development in the South East, and the Thames Gateway in particular, offers opportunities to kick start innovation and knowledge transfer regarding low carbon technologies and materials. That is why the Government will be undertaking a feasibility study which will explore the scope to make the Thames Gateway a low carbon development area within the next decade and then to move towards carbon neutrality.

As we move towards low carbon living, it won't just be new households who will benefit from lower fuel bills. In order to achieve our carbon neutral ambition, we expect that existing households will benefit, for example from energy efficiency measures which will contribute to reducing the overall carbon footprint of an area.

**47. The Water Savings Group is still in its infancy and has much ground to cover in what we suggest should be a very short time. Given the urgent need for action with regard to water supply and demand management, we expect to see evidence of positive and early action emerging from the Group. (Paragraph 97)**

The Water Saving Group (WSG) was established in October 2005 for a duration of two years with a demanding action plan within this timetable. Its members are Defra, DCLG, Ofwat, the Environment Agency, the Consumer Council for Water, Waterwise and Water UK. The purpose of the Group is to identify practical ways in which Defra and key water industry stakeholders can work together in order to encourage the efficient use of water in households.

The first meeting of the Water Saving Group last October agreed an action plan with five work streams, with different organisations taking the lead. The work streams are:

1. Measuring success;
2. Information needs: gaps, priorities and funding;
3. Best practice in water company promotion of water efficiency: Identifying it and applying it;
4. Understanding and changing customer perceptions and raising awareness; and
5. The policy and regulatory framework.

Good progress has been made in all the work streams and work will continue in order to deliver the action plan within its timescales. For example, the Consumer Council for Water has finished its review of existing research on consumers' attitudes and behaviours, and will undertake extensive research this summer to address gaps identified so as to improve the understanding of consumer knowledge of water resources and their views on water efficiency and consumption. Similarly, Waterwise has completed its review of information on water efficiency projects, and will undertake further work on the gaps identified, for example on the logistical procedures for retrofitting water efficient devices in homes. Defra has also made progress on the work it leads on taking forward targeted action for increasing metering in water stressed areas and is applying the lessons learned from the Folkestone and Dover application for area of water scarcity status to develop ideas to streamline the process.

**48. The need to build new homes is seen as an absolute imperative and is used by the Government as a mandate to sweep aside any concerns that people may have about the environmental impacts of those plans. We find it deeply worrying that there is no appetite within ODPM to take on the building sector and guarantee that these homes will be built to sufficiently high energy efficiency and environmental standards. What we find reprehensible is the clear signal from Government that it really does not matter that these homes are going to be built before supporting infrastructure is in place. And we reject the implication that the people for whom these new communities are intended will be so grateful to have a home that they will be prepared to put up with substandard communities rather than sustainable communities. (Paragraph 98)**

As this response has demonstrated, it is absolutely not the case that the Government is ignoring concerns about the environmental impacts of house building or that we are taking the irresponsible attitude towards infrastructure provision which the Committee suggests.

In order to inform the Government's response to the Barker Review of Housing Supply, DCLG and Defra jointly commissioned ground-breaking research to augment the evidence base on the environmental impacts of housing. This enabled the Government to develop its policies with a clear understanding of the environmental impacts of different levels of increased housing supply. The comprehensive package of measures that accompanied the Government's response to Barker was formulated in light of this improved evidence base. In taking forward our consideration of how growth is best accommodated in sustainable locations, Defra, the Environment Agency and Natural England are closely involved in assessing the environmental sustainability of proposed new Growth Points. We are developing an ambitious strategy for the development of the Thames Gateway, with particular emphasis on achieving a low carbon footprint, as part of our aim of making the Gateway an exemplar sustainable community.

A number of key work streams are being taken forward to ensure that infrastructure is provided in the way which best supports increased housing supply. In particular, we will be working across Government to ensure that the Planning Gain Supplement is rolled out in a way that supports delivery of infrastructure for sustainable communities. Also, the Treasury's cross-cutting review of infrastructure funding will ensure that Departmental resources are targeted appropriately with respect to housing and population growth.

Further details on the specific issues raised by the Committee can be found in the following sections of the response:

#### *Environmental impacts of building*

The Committee will find our reply regarding the environmental impacts of house building in our responses to 1, 2, 4, 5, 14-16, 21, 46.

#### *Building industry*

DCLG's approach to the building industry, and the way in which it tackles environmental standards, can be found in our replies to 4, 5, 10-16, 17, 19-23.

#### *Infrastructure*

The Committee will find the Government's response on its approach to providing the essential infrastructure required to enable the creation and continuation of sustainable communities in our reply to 32, 33, 35-38.

#### *Sustainable communities*

The Government agrees with the Committee that people will not tolerate living in substandard communities, and the Committee will find our replies to points 6, 7, 10, 14, 16, 35, 39 of particular interest.



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