

Submission to the CMA about the appeal from Anglia Water regarding the Ofwat price determination

Introductory remarks

This submission is being made in a personal capacity. However, I do have personal interests to declare:

- Until July 2020, I am a Non-Executive Director of Taylor Wimpey plc
- I am Chairman of Trustees for a pension scheme, which via a manager holds equity in one of the parties to the appeal
- I have just stepped down as a member of the National Infrastructure Commission, where I took a special interest in the work around water and the need to plan for the long-term resilience of the sector – but these comments are made quite independently of that role.

Apologies that this submission is made a few days after your deadline – the opportunity to make comments was only recently drawn to my attention.

Household projections

This is a narrow submission on only one aspect of Ofwat's price determination. It was a surprise and concern to see that on p20 of the Ofwat document: *P19 draft determinations: Securing cost efficiency technical annex*, it is stated that, for the growth in household numbers: 'We have looked at independent and recognised sources as the basis for our forecast, and consider that ONS best fits our criteria'.

The household projections for England have only recently been undertaken by the Office for National Statistics (ONS), having previously been produced by the Ministry for Housing, Communities and Local Government (MHCLG). For England as a whole, the annual increase in household numbers in the 2016-based ONS projections over the next 25 years is 159,000. The previous MHCLG 2014-based projection was 210,000.

The ONS release (from September 20, 2018) states:

"Household projections are not forecasts. They do not attempt to predict the impact of future government or local policies, changing economic circumstances or other factors that may influence household growth, such as the number of houses built. Household projections are not a prediction or forecast of how many houses should be built in the future. Instead, they show how many additional households would form if the population of England keeps growing as it did between 2011 and 2016 and keeps forming households as it did between 2001 and 2011. Therefore, household projections should be used as a starting point for calculating the future housing needs of a local area."

There were a number of methodological changes from the MHCLG projections which a number of commentators have suggested makes these ONS projections *less* suitable for use in local authority plans. In particular the method implies no change in household size – whereas many commentators consider a fall in household size, linked to young people being able to leave the family home more readily, would be desirable over the next decade.

In the present guidance to local authorities. MHCLG still consider the 2014-based projections, adjusted for affordability, as the appropriate basis for housing supply targets in local plans. This describes the standard methodology (known as Objectively-Assessed Need – which I admit makes it

sound rather more certain that it actually is). The affordability adjustment will tend to push the OAN upward from the household projection in relatively high price areas, such as prevail in much of Anglia Water's geographic area.

For England as a whole, the MHCLG OANs, uncapped, would lead to a total 300,000 annual new supply for housing targets in the next local authority planning period – however there is a cap to prevent housing growth target being too large an increase for recently-established targets. This reduces the England total to 250,00 annually – 57% above the ONS 2016-based household projections.

In the East of England, the 2014-based household projections were for 26,600 (rounded) annually 2020-25. In the ONS 2016-based projections this number was reduced to 22,600 (rounded). The standard methodology would increase this gap due to the affordability adjustment as described above.

In the five years to 2018/19 (the latest data available) net additions to the housing stock in the East of England averaged 24,600 annually. Looking just at new completions (removing conversions) the new build additions averaged 21,000 – and was on a rising trend. In 2018/19 new build completions totalled 25,500.

Recent events remind us all to be cautious about any projections – although the Government's strong support for an early resumption of housing construction suggests housing supply remains a policy priority. Some commentators are in any case sceptical altogether about using household projections, as in this piece by Glenn Bramley:

<https://www.i-sphere.hw.ac.uk/household-projections-and-housing-need-death-spiral-or-death-knell/>

However, the crux of my argument is that it seems inappropriate for Ofwat to suggest water companies plan on a basis so much lower than either the sum of current local authority plans, or MHCLG guidance. It is rather surprising in the light of the considerations above that these are judged to be the best forecasts. There is of course always slippage against plans, and indeed events throw us off course, but even allowing for that, this seems a curiously low planning assumption.

Dame Kate Barker

Lead author: Review of UK Housing Supply, 2004