

## Responses to the emerging strategy for innovation for Ofwat

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These responses are based on the comments of professionals as stakeholders across the sector, and various CLEAR IDEAS, and other Workshops, associated, directly or indirectly, with the university project. They are not necessarily the views and opinions of TWENTY65.

*Q:1 What are the main barriers to innovation in the sector and why?*

A key part of T65 theme. Expected return on investment for the Water Co is a major barrier:

Supply chain innovators cannot tell Water Co how much their innovation will offer of ROI, or when – they invent, develop and supply – they don't know enough about the metrics of the industry or how to apply them. Consultants have sympathy with suppliers over this problem – some see the challenges being addressed by having a 'water centre of excellence' as in Q7, as a solution, where all can share data on practical and economic data (Associated with Q5 Open data by Default). Water company informants suggest that a major barrier to sector innovators is that of not having the language to talk to the different parts of the company seeking benefit from technical innovation. The technical buyers can understand and wish to develop an innovation, but the finance teams insist on a certain level of fiscal benefit, which cannot be ascertained before full implementation. The Innovators need to be able to communicate at so many different levels, and run their company at the same time.

Lack of continuity of role in the sector, and lack of project hand over is a further barrier, according to our data. It is advisable to ask for a project plan as part of the business plans, where the role of a person is made clear for taking innovations forward: even if personnel move on, the organizational role needs to be marked, to allow for continuity.

Lack of talent, and an unclear talent pipeline came up recently as a topic. Operatives need to know how to use innovative technology, and senior management needs to know who to implement change in the organization. There is a perceived need for training in this domain.

*Q:2 Do you think that the financial support cited in section three is required to stimulate innovation in the sector? If so, what do you believe is the appropriate amount of funding and why?*

Meeting with innovators, suppliers and consultants at different venues, it becomes evident that up-front costs are not tenable within the 5 year AMP cycle. Some developments are very costly, and it will take 15 to 25 years for the ROI to be obtained. The funds offered to other utilities are seen as welcome, but quite small, and would meet some of the costs for small SME capable of getting to trial, but not meet scale-up costs, such as finding a manufacturer. There is a considerable amount of innovation in the sector – it is

implementation, which, fails, or is a missed opportunity because one company develops the innovation, but the product is not needed in large enough quantities to make the product viable. If it were to be manufactured for more water company customers it would be a viable prospect, and also become available for export.

*Q:3 Do you agree that our proposed draft principles for additional financial support will effectively safeguard the interests of customers? No comments*

*Q:4 What are your views on the collectively funded innovation competition model which we describe in section three? What other key considerations not highlighted should we take into account in designing/ implementing the competition?*

Comments from stakeholders mentioned care with making certain that these really were new projects, which, would not happen without the funds, and that they would serve real needs, and not become fodder for institutional straplines. Many innovations just disappear after they have received national awards for their innovativeness. This supports the Ofwat view of the whole organization showing acceptance of the need for innovation, and increasing the absorptive capacity.

*Q:5 What are your views on the end-of-period innovation roll-out reward we describe in section three? What other key considerations not highlighted (e.g. whether it should be collectively funded or individually funded) should we take into account in designing/ implementing the reward?*

The collective view is that many of the current 'water trade bodies' are talking shops, and that collectively funded projects tend to favour the larger companies. Any collective decisions take so long to be turned into research projects, or trials. Agility does not come from this process.

Implementation to rollout is one of the biggest challenges in the industry, according to our data – awarding at implementation would be a very good move forward, perhaps with additional payments at the following AMP, to encourage ongoing training and use. Making sure that there is a **Statutory Requirement to register the research**, the results of the pilot, and a reason for failure to implement, would make this an even better system that that being developed for the biomedical sciences, and pharma. It would fulfil a similar role to Cochrane Reviews: companies would know what had been trialled, under what conditions, and whether it might work for their conditions.

It is worth remembering that many technical innovations may be used by contractors, and by subcontractors, and that temporary, short term operatives are deployed: they would need to be trained for many pipeline innovations to be implemented. This situation can also act as an initial barrier, since benefit can accrue to the Water Co. at the cost of the contractor. If a contractor, or a subcontractor is willing to take on the innovation, and any development

work, they too, will need to be rewarded inside this process. This model would need to be carefully and fairly developed.

*Q:6 What other potential alternative mechanisms for funding/ rewarding innovation not discussed do you think we should be considering? Which financial support mechanism or combination of mechanisms should we introduce and why? What would be an appropriate split of available funding/ reward?*

Several informants have suggested publically floated 'water innovation bonds', allowing consumers of water to share costs and benefits more widely. Since there is a desire in the market to place savings in an socially beneficial funds, this could be a source of funds from stakeholders, without customers having to shoulder the full bill.

Just about all our informants who gave an opinion on AMP phasing want it to be decoupled from innovation, because everything takes longer than five years, and it can stop a project because the money is being measured against too short a time span for testing, implementation and full roll-out, when it has passed internal testing.

Our informants suggested online 'Crowd Funding' for some innovations.

*Q:7 Do you think the potential industry activities discussed in section four could help drive innovation? Are there other activities not identified which you think the industry should be considering?*

A two tier national strategy is largely welcome amongst our informant groups, as there are clear universal challenges, and some far more limited in scope, but still very important to some smaller companies.

*Q:8 Do you think the proposals in section five will help drive innovation? Are there other activities not identified which you think Ofwat should be considering?*

Getting 'more talented people' in to all of the sectors, across the whole of the country, was a topic that came late to the table. Quantity Surveying has a long-standing distance learning course in the UK; Water might consider something similar, to help make sure that everyone in the sector can have access to innovation training, and organizational management.