

December 2019

Trust in water

# **Time to act, now: driving transformational innovation in the sector**

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# Time to act, now: driving transformational innovation in the sector

## About this document

In our new strategy, *Time to Act, Together* (October 2019), we highlight that innovation is crucial for meeting the profound challenges the sector faces in a cost-effective and sustainable way. These include the climate crisis, more volatile weather, and population growth. Water is critical to every aspect of our lives, and we need to make sure the sector can continue to deliver reliable, resilient and safe water that is affordable for all.

Our price review framework already promotes innovation by setting water companies stretching targets and allowing them the flexibility to adopt innovative means of delivering. And we have already seen some good pockets of innovation. However, we have yet to see evidence of the cultural shift we think is needed to drive truly transformational innovation and address key challenges at sector level.

There remain significant untapped opportunities for companies to work with each other, the supply chain and those in other sectors to trial and adopt transformational new practices and technology. In this document, we explain our decision to make up to £200m of additional funding available through an innovation competition for the next regulatory period, 2020-2025.

In the New Year, we will work with stakeholders to set up the innovation competition and design a detailed framework, consulting as required. We will also continue to reflect on the role regulation should play as an enabler for innovation. We will trial a one-stop-shop within Ofwat to provide informal regulatory advice to anyone looking to get innovations off the ground in the water and wastewater sector.

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## Summary

We believe that the adoption of innovative approaches is key to delivering long-term resilience and great customer service at an affordable price. The sector faces unprecedented pressures in the shape of climate change and population growth, and will need to step up to make sure it can continue to deliver reliable, resilient and safe water that is affordable for all. We also want to see companies work more effectively together, and with their supply chain, to better tackle these challenges.

In July 2019, we consulted on a set of proposals designed to drive transformational innovation in the water sector. We received 65 responses to our consultation from a range of stakeholders including the supply chain, innovators, consultancies and interest groups. Overall, there was strong support for our proposals.

**In this document, we explain our decision to make up to £200m available for innovation for the period 2020-2025.** This additional funding will be provided through an increase in company revenues as set out in the [PR19 Final Determinations](#) published alongside this document. We also outline the additional steps we are considering to increase coordination and collaboration across the sector, and ensuring that regulation facilitates innovation.

We will run a collectively-funded innovation competition at least once a year. The competition will be open to the 17 water and wastewater companies, and new entrant water and wastewater companies.<sup>1</sup> We expect companies to work closely with each other, their supply chain (including small and medium-sized enterprises), other innovators, and stakeholders in preparing their bids for the competition.

The innovation competition is designed to complement our existing approach to innovation in PR19. Our outcomes and total expenditure approach already facilitate innovation by giving companies the flexibility and freedom to adopt more efficient and effective means of delivering. We also set stretching outcome performance commitments and a cost efficiency challenge benchmarked to the performance of the leading companies.

We will put safeguards in place to ensure the innovation competition delivers value for consumers across England and Wales. We recognise that not all innovation projects will be successful, so sharing of information, lessons learned and best practice will be at the heart of the competition.

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<sup>1</sup> New Appointment and Variations (NAVs): NAVs are new entrant water and wastewater companies which serve end customers by becoming the local licensed supplier and replacing the existing water and/ or wastewater company (incumbent) for a specific area.

In parallel, we are calling on water companies to come together to develop a joint innovation strategy and to consider how best to coordinate existing and future innovation activities, for example through an innovation in water centre of excellence. We recognise that Ofwat also has a role to play: as highlighted in our new strategy *Time to Act, Together*, we will trial a one-stop-shop to provide informal regulatory advice to anyone looking to get innovations off the ground in the water sector.

## Next steps

### Our commitment

Over the next few months, we will work closely with our stakeholders to finalise the framework and launch the innovation competition as soon as possible. This is a real opportunity for us to find new ways of working and delivering for customers. We want to learn from other sectors and kick-start a cultural shift in water.

Through the consultation process in summer 2019, we received expressions of interests from a number of organisations wishing to get involved in the design and administration of the innovation competition. There were also many good ideas and lessons learned from other sectors which we are keen to explore further. We outline our current view of next steps in the table below.

Activity	Timings (tentative)
Consult on and reach final decision on timings and key outstanding policy issues. This will include developing further customer safeguards, setting out amount of match funding extended, managing Intellectual Property Rights (IPRs), and process for reviewing the innovation competition	Q1/2 2020
Kick off a fair, open and transparent process for appointing an organisation that will have the right expertise to help us design, and ultimately run, a successful innovation competition. This will include the developing a more detailed set of criteria for assessment	Q1/2 2020
Trial "one-stop-shop"	Q2/3 2020
Potential pilot run of innovation competition	Q3/4 2020

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## Our challenge to the companies

We want the water companies to demonstrate their commitment to innovation by developing a **sector-wide joint innovation strategy** in 2020, in time for the start of the innovation competition. At a minimum, we would expect an innovation strategy to provide input on key themes and areas of focus for the competition, as well as identify strengths, weaknesses and gaps in innovation in the sector. As part of the joint strategy, we also expect companies to consider ways in which they could better streamline and coordinate innovation activities, and improve their engagement particular small-scale innovators. This could take the shape of an **innovation in water centre of excellence**, which could potentially be part-funded through the innovation competition.

We invite water companies and existing industry bodies to consider what role they can play in leading the development of the joint innovation strategy and/ or proposals for an innovation in water centre of excellence.

## How to get involved

We would like to run workshops or sprints with interested stakeholders ahead of finalising key policy questions, and to help kick-start industry activities.

We will invite all stakeholders who responded to our consultation. If you would like to get involved and did not respond to our consultation, please email us at [innovationconsultation@ofwat.gov.uk](mailto:innovationconsultation@ofwat.gov.uk) by Wednesday 15 January 2020<sup>2</sup>.

We will also look to kick off a fair, open and transparent process for appointing an organisation that will have the right expertise to help us design, and ultimately run, a successful innovation competition. This is likely to include helping to design to the detailed criteria against which projects will be assessed.

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<sup>2</sup>Later expressions of interest will still be acceptable to allow involvement at a subsequent stage.

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# 1. Introduction

## Barriers to innovation

In our final methodology for PR19 (December 2017) we stated that innovation must be at the core of every company if they are to successfully address the challenges facing the sector. The framework we set in that methodology promotes innovation by:

- Setting water companies stretching outcome performance commitments
- Setting a cost efficiency challenge benchmarked to the performance of the leading companies
- For some companies, introducing additional enhanced performance commitments

However, we identified remaining barriers to transformational innovation of the kind that is required to address the challenges the sector faces. In our consultation, we identified **company culture and effective joint-working** as key barriers, in particular in the context of rolling out solutions. Our initial assessment of PR19 business plans suggested companies must do more to develop the right culture and mechanisms to facilitate effective innovation and collaboration.

In addition, companies may have a low risk appetite because of the clear public health and environmental obligations they must comply with under the current **regulatory framework**. The five-year regulatory cycle means that the commercial benefits of more transformative innovation are sometimes perceived to be less clear or less likely to accrue within a single regulatory period.

Finally, we are facing **global strategic challenges** such as climate change and population growth which will not be met without transformative innovation. The companies will need to work together and with their stakeholders to successfully tackle these challenges while still delivering safe, reliable and affordable water supplies for all.

Overall, respondents agreed that more collaboration is required to enable innovation in the water sector. The supply chain in particular highlighted that innovations must be presented and tested several times with different water companies, even when results have already been proven. Some respondents also highlighted that procurement processes can be restrictive.

Many respondents noted that the five-year regulatory period focuses attention on delivering innovation within the regulatory period to achieve efficiencies and meet stretching targets, and that there is a need to refocus activities on the longer-term. Some responses stated that whilst they don't see any fundamental barriers to

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innovation in the water sector, the use of comparative measures mean that companies are less willing to share innovations. Finally, many respondents considered that the inherent public health responsibilities of providing safe water and wastewater services means that water companies may be less willing to adopt innovative approaches.

Overall, stakeholders called for more clarity - of vision, direction and expectations - to better enable the development and roll-out of innovations. Some respondents noted that the current approach to innovation in the sector is fragmented, making it difficult to jointly address the emerging long-term challenges in the sector. Several responses called for more transparency and openness, as companies do not always clearly communicate the problems they face to the wider sector, potentially creating a misalignment between companies and the supply chain.



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## 2. Our decision – financial support for innovation

### Our consultation proposals

We consulted on making up to £200m of financial support available to stimulate innovation in the sector.

Our consultation sought views on two different mechanisms:

- a collectively-funded innovation competition to run throughout the next regulatory period, 2020-2025; and/ or
- a reward for the successful roll-out of innovative solutions at the end of the period as part of PR24.

Please see our consultation document for full details of our proposal<sup>3</sup>.

### Our decision

#### Financial support

**We have decided to provide up to £200m<sup>4</sup> of additional funding for transformative innovation over the period 2020-25.**

Our proposals were broadly welcomed by stakeholders, and responses supported our view that additional funding is required to address the barriers we have identified. For example, several respondents mentioned that funding would help de-risk innovation, while others noted the potential reputational incentive associated with a competition.

We think our approach will enable risk-sharing, in particular where benefits are less clear or only likely to accrue in the longer-term. It will also foster increased coordination and collaboration. Finally, we think there will be additional reputational benefits for those companies that take a leading role.

While some respondents questioned our approach to determining the amount of funding, other consultation responses supported the level of funding and commented that £200m was an appropriate amount. Several respondents noted that we did not

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<sup>3</sup> <https://www.ofwat.gov.uk/consultation/ofwats-emerging-strategy-driving-transformational-innovation-in-the-sector/>

<sup>4</sup> In 2017/18 prices

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carry out any Willingness to Pay (WTP) analysis and argued that we should assess the impact of our proposals on customer affordability. One respondent asked us to consider how best to protect customer interest in the context of a competition.

Our view is that providing up to £200m remains appropriate. This is broadly in line with the amount of funding available in other sectors that have similar mechanisms, and with the conclusions of the 2009 Independent Review of Competition and Innovation in Water Markets<sup>5</sup>. We have considered the use of WTP and our view is that it is not an appropriate tool in the context of innovation. This is because it would be difficult to define in concrete terms what the WTP would relate to so as to engage customers meaningfully. We also recognise the need to ensure bills remain affordable, both today and in the longer-term. By driving innovation now we will help ensure affordable bills and better service in the future, and some customers may already see benefits accrue in the shorter-term.

Funding will be provided through an increase in revenue at PR19, and will be collected by the companies from their customers. The amount each company's customers will contribute will be proportionate to individual company revenue<sup>6</sup>. For customers of water and wastewater companies, we currently estimate that the average annual household bill impact will range between £1.3 and £1.9<sup>7</sup>. In light of affordability concerns expressed in some consultation responses, we have made a small adjustment to ensure that annual household bill impact remains below £2m across the board, with an estimated impact on other companies' customers' bills of around 1p per bill per year.

We have made clear our expectation that funding will be ring-fenced and administered such that it cannot be used for purposes other than the innovation competition. In order to smooth the impact on bills, we envisage that companies will collect funding from their customers evenly over the period 2020-2025. We will ensure that companies do not benefit financially from having collected money from their customers earlier than it is spent.

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<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/69462/cave-review-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69462/cave-review-final-report.pdf)

<sup>6</sup> The innovation funding is itself a component of company revenue. To avoid circularity and for expediency we have chosen to draw a line in the sand and use company revenue at Draft Determinations to apportion the £200m pot. We think this approach is appropriate and proportionate. We note that the average difference between revenues allocated at Draft Determination and Final Determination stages is around 3% (though this will vary from company to company) and that the innovation competition funding is a small fraction of this.

<sup>7</sup> We have used the combined number of water and waste water connections as a proxy for the number of customers and therefore the figure may vary slightly.

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## Nature of funding

### **We will introduce a collectively-funded innovation competition, focused on addressing long-term strategic challenges.**

Respondents were overall supportive of the innovation competition model. For example, several respondents noted that an innovation competition would provide more certainty than the end-of-period roll-out reward. Others noted that the design, administration and management of the fund will require careful consideration, including the question of access to the competition. A number of respondents argued that a competition may not be compatible with a drive towards greater collaboration.

Views on the end-of-period roll-out reward were more mixed. Many stakeholders supported the targeted focus on roll-out. Others commented on the mechanism itself and noted that the lack of certainty around end-of-period rewards may not encourage innovation. A number of stakeholders also expressed concerns around the potential complexities of assessing roll-out at the end of the period and the potential risk of rewarding activities that would have taken place anyway.

Out of the two mechanisms consulted on, we think an innovation competition will more effectively address the barriers we have identified. In particular, it will provide greater certainty around funding, allowing companies to make a case for innovation. We do not agree that a competition format is incompatible with this aim, and this approach has proven successful in other sectors (e.g. energy<sup>8</sup>). The competitive element will help ensure the high quality of proposals put forward for consideration, with a strong emphasis on collaborative bids, lessons learned and open data and information.

Our view is that a purely backward-looking roll-out reward is likely to be less effective and more complex, with a higher risk of double-funding business as usual activities. Respondents also noted the importance of roll-out and ensuring innovative solutions are implemented at scale. With that in mind, we will design the competition in a way that encourages roll-out as well as new ideas. For example, this could take the shape of a setting criteria for one or more of the annual competition rounds that encourage bids from companies focused on the sharing and/ or adoption of innovations during the period.

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<sup>8</sup> For example, the Energy Networks Association (ENA) hosts a Smarter Networks Portal, a repository for innovation project learning, news and dissemination events. The ENA also hosts a Network Innovation Collaboration Portal to help identify and facilitate engagement with potential project partners. More information is available here: <http://www.energynetworks.org/electricity/futures/innovation-portals.html>

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The competition will run at least on an annual basis (starting as soon as reasonably practical). We expect companies to work closely with each other, the supply chain, and other stakeholders to identify and propose common solutions in an efficient manner, and we will explicitly encourage collaborative bids. We will also focus the criteria for the competition principally on the major long-term issues facing the whole sector to avoid funding business as usual activities that are already incentivised by our regulatory regime.

### **Fair access to the innovation competition**

We welcome the interest that our consultation has generated from stakeholders within the sector and beyond. We note in particular the suggestion in some responses that the innovation competition should be open to anyone.

The 17 water and wastewater companies regulated through the price control will have direct access to the innovation competition. In light of responses to our consultation, and to ensure the greatest potential scope for innovative ideas, the innovation competition will also be open to new entrants (NAVs).

At this early stage, we have decided that third-parties will be able to access the competition through collaborative bids with the water and wastewater companies. We have made our expectations clear: we want to see the companies work closely with each other, their supply chain, and wider stakeholders to deliver innovation. In designing the competition, we will consider ways in which we can help strengthen third-party participation, for example by enabling third-parties to pitch jointly to the water companies and a panel of experts for funding provided under water company sponsorship. One of our main objectives is to drive cultural change within the water companies, and ultimately innovators will need buy in from the water companies if new solutions are to be rolled out and implemented at scale.

We understand the concerns raised by smaller water companies around fair access, given that they may not have the same level of resources as other larger water companies. We will take this into account when considering principles and criteria around match funding (including the size of expected match funding). We think the innovation competition is an excellent opportunity for smaller companies to work in partnership with others to deliver significant benefits for customers.

As noted below, we will keep the innovation competition under review. This will include looking at how well companies are working with each other and others to maximise benefits to customers across England and Wales. We will confirm timings for reviews in the next phase of work (see next steps).

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## Alternative mechanisms

We are keen to explore with the sector some of the ideas that have come through in the consultation process. We would like to understand whether elements of these could be compatible with the framework we are setting up and our overarching aim of driving transformational innovation in the sector. We recognise that there is as a lot to learn from other sectors and regions of the world for example:

- The US Environmental Protection Agency's Clean Water State Revolving Loan Fund<sup>9</sup>, which provides a permanent, independent source of low-cost financing for a wide range of water quality infrastructure projects. As projects are completed and loans repaid, funds are then loaned out to new projects.
- The Defence and Security Accelerator model<sup>10</sup> - a cross-Government team from a wide range of backgrounds including defence, security, the private sector and academia with regional hubs to drive innovative activities.
- The Civil Aviation Authority's three-pronged approach to innovation<sup>11</sup> including i) an innovation gateway to submit ideas to understand the impact of regulations ii) a regulatory sandbox for innovative companies to test ideas and iii) innovation lab to trial prototypes.
- An equity stake approach – where funding is provided in return for equity.

We would like companies to start exploring what the water sector can learn from these initiatives in the context of a joint innovation strategy (see section 3)

A number of responses suggested we introduce an innovation allowance similar to the Network Innovation Allowance (NIA)<sup>12</sup> implemented by Ofgem as part of the RIIO framework. However, our view is that an innovation competition will be more conducive to cross-sector collaboration and will better help address the barriers we have identified.

## Safeguarding the interests of customers

To help safeguard customer interests, we proposed in our consultation that access to additional financial support should be based on key principles

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<sup>9</sup> <https://www.epa.gov/cwsrf>

<sup>10</sup> <https://www.gov.uk/government/organisations/defence-and-security-accelerator/about>

<sup>11</sup> <https://www.caa.co.uk/Our-work/Innovation/The-CAA-innovation-hub/>

<sup>12</sup> The NIA is a set allowance each energy company receives as part of their price control allowance under Ofgem's RIIO framework. The NIA provides limited funding to RIIO network licensees to use to fund smaller technical, commercial, or operational projects directly related to the licensees network that have the potential to deliver financial benefits to the licensee and its customers.

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Many respondents agreed that the draft principles we outlined would safeguard the interests of customers. Several responses asked for more information on the governance and operation of the fund. We will consult on the detailed operation of the fund at a later date (see next steps), but have summarised the key themes from responses below, as well as an updated set of principles.

## **Scope – driving truly transformational innovation**

A number of respondents noted the importance of ensuring that the innovation competition is not used to fund activities that companies would pursue as part of their day-to-day activities, without the competition being in place. Our principles are clear that funding should only be made available for projects that water companies would not otherwise pursue, and this will be a key requirement in assessing bids.

Other responses flagged the importance of getting the balance right between ensuring customers across England and Wales benefit from the competition while recognising more localised challenges. We are mindful that not all sector wide challenges affect all companies equally. There may be plenty of ways in which projects addressing more localised issues could still deliver significant wider benefits and we will make sure these are still considered.

## **Innovation competition review**

Respondents to the consultation asked for more information around the circumstances under which we might consider stopping the competition and/ or returning some or all funding to customers. We will consult on our proposals on these aspects further in the New Year (see next steps). This will include proposals for:

- Reviewing the innovation competition, at least at end of the period, and possibly in year 2 or 3 of the innovation competition to ensure it is delivering value for customers;
- Returning unspent or misspent funds to customers at the end of the period.

We recognise that innovative endeavours will not always succeed. However, we also have a duty to safeguard the interests of customers. Any mechanism to return funding to customers at the end of the period will be designed in a way that will only become active if it is clear that companies have not acted with customers' best interests at heart. For example, this could be where companies have misspent funding or not spent it on the project it was allocated to.

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## Additional considerations

One of the draft principles we consulted on stated that “mechanisms will be time-limited to the 2020-2025 period”. A number of responses noted that projects are likely to span several periods and may not always be delivered within the 2020-25 period. We recognise that the benefits of innovation may only be realised after 2025 and that some of the projects funded through the competition may continue beyond that. However, we have only committed to providing funding through the price review for the period 2020-25. Our aim is to drive cultural change in the sector and to “jump start” innovative activities which can become business as usual in the future. Where appropriate, we may decide to fund projects through the innovation competition which will run beyond 2025. In preparing their bids, we would also want to see companies identify other potential sources of funding.

In our drafted principles, we also talk about an “open-by-default” approach to data and information. Responses to this principle were mixed – while many respondents were supportive, some asked how this principle would work in practice. Our “open by default” principle still stands, however we agree that this is an important issue which will require further consideration. We will consult on this in the next stage (see next steps).

## Updated principles

In light of our decision and responses to consultation, we have updated our principles. These will inform further work on the design of the competition and detailed criteria for funding. We may consider revising these principles from time to time, based on how well we think the innovation competition is working.

- Innovation is not just about the development of new technologies. Innovation can also be developed by doing things differently and having the right systems, processes and people to support activities. A wide range of innovation proposals are encouraged, addressing the big challenges facing the sector and taking into account the strategic priorities and objectives of the UK and Welsh governments;
- The purpose of the [innovation competition](#) is to drive transformational innovation that companies would not otherwise explore or invest in;
- Proposals should be just as much about the roll-out of innovations at scale as the early incubation of new ideas and solutions;
- Innovation fostered through the [innovation competition](#) must provide public value for all customers in England and Wales, although the benefits for some customers may in some cases be indirect (e.g. from the sharing of findings across the sector where projects are not successful);

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- Companies will be required to fund a proportion of project costs to ensure risks are appropriately shared between customers and shareholders;
  - The **innovation competition** will **run during the period** 2020-2025 period, **though some projects may extend beyond that period**. We will review the effectiveness of the competition at least at the end of the period, and as required during the period;
  - Companies will need to provide evidence of how they are working together and with others (including other water companies, their supply chain, companies in other sectors), and/or a commitment to transparent sharing of progress and findings with others within the sector and beyond;
  - There will be an “open by default” approach to data and learning generated through customer-funded activities, including where projects have been unsuccessful.

## Next Steps

Over the next few months, we will work closely with our stakeholders to finalise the framework and launch the innovation competition. This is a real opportunity for us to find new ways of working and delivering for customers. We want to learn from other sectors and kick-start a cultural shift in water.

In this next phase of work we will:

- Define a **clear and robust set of rules** to ensure the competition benefits customers today and tomorrow.
- Consider how to **administer the process efficiently** and in a way that allows fair participation across the board.
- Involve **independent experts** from different fields in the decision-making process so that we only fund genuine innovation.
- Take a **proportionate approach to decision-making**, with Ofwat retaining strategic control over the innovation competition.

We will aim to reach final decision on timings and key outstanding policy issues such as the treatment of IPR, safeguarding customer interests, amount of expected match funding, and process for reviewing the innovation competition in the first quarter of 2020, consulting as appropriate.

We will also look to kick off a fair, open and transparent process for appointing an organisation that will have the right expertise to help us design, and ultimately run, a successful innovation competition. This will include designing more detailed criteria against which proposals will be assessed. This organisation will need to work closely



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with stakeholders to introduce a process which is fair to all and strikes the right balance between protecting customers and being easy to navigate.

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### 3. Setting ourselves up as a sector to deliver innovation

In our consultation, we discussed other potential industry activities. We asked companies what actions they could take to set themselves up more effectively as an industry, and what role we can play to better enable innovation in the sector.

We see huge opportunities for water companies to come together to make a real difference. We expect the sector to take full advantage of these opportunities, proactively taking the lead on the initiatives we discuss here.

#### Industry activities

**We want to see the sector express its strong commitment to innovation by developing a joint innovation strategy in 2020**, in time for the start of the innovation competition. Company buy-in is central to the success of the innovation competition and the joint innovation strategy could contribute to ensuring the available innovation competition funding is appropriately targeted and delivers value for customers.

Most respondents expressed support for the introduction of a joint innovation strategy. Many identified a lack of clear vision and direction as a significant barrier to innovation, and commented that a sector-wide joint innovation strategy could address this. Respondents largely believed that a joint strategy would complement the establishment of an innovation fund, and focus and align efforts on emerging challenges. Many respondents highlighted the work of UKWIR, and their “Big Questions” agenda, as a valuable starting point.

At a minimum, we would expect an innovation strategy to help establish key themes and areas of focus for the innovation competition, and examine the sector’s strengths and weaknesses in innovation. This will help identify existing activities, gaps and opportunities for funding elsewhere, therefore ensuring the innovation competition delivers real value. We also want companies to think about ways of ensuring that, in the longer-term, innovation does not become reliant on direct customer funding, for example exploring some of the suggestions that came through consultation responses (see section 2: Alternative mechanisms). Finally, companies should think hard about how to best monitor the benefits of innovation in a way that is meaningful and consistent.

The majority of responses were also supportive of the concept of an innovation in water centre of excellence. Many respondents expressed that there are many

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examples of “innovation hubs” and catapults in other sectors producing good results, and that it could support transformational innovation. A number of responses stipulated that there are already several examples of centres that exist across the sector, established by water companies, industry bodies, and academic institutions. Respondents highlighted that there is a gap to be filled for a centre of excellence to operate in a coordinating role.

**As part of their joint strategy, we want companies to consider ways in which they could better streamline and coordinate innovation activities, and their engagement with stakeholders and small-scale innovators. This could take the shape of a water innovation centre of excellence, which could potentially be part-funded through the innovation competition.**

### **Next steps**

We invite water companies and existing industry bodies to consider what role they can play in leading the development of the joint innovation strategy and/ or proposals for an innovation in water centre of excellence.

We also expect companies to engage with stakeholders in the water sector and beyond, and their supply chain in developing their strategy. Companies will need to think about on-going stakeholder engagement and ways to keep the strategy up to date.

We will work closely with the sector to kick-start this engagement, for example through workshops and sprints in the New Year.

## **Regulation as an enabler for innovation**

### **Setting ourselves up to promote innovation**

We will continue to reflect on the role regulation should play to enable innovation, and will be trialling a one-stop-shop within Ofwat to provide regulatory advice to anyone looking to get innovations off the ground. A small number of responses noted the need to strike the right balance between providing advice versus providing regulatory approval.

In the New Year, we will consider how a one-stop-shop might work. We will consider how we can best provide a clear and useful advice service, and learning from best practice from other regulators and sectors.

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## **Increased coordination on innovation across regulators in the sector**

Our proposals for building on our partnerships with the Department for Environment, Food and Rural Affairs (Defra), the Welsh Government, the Environment Agency (EA), Natural Resources Wales (NRW), and the Drinking Water Inspectorate (DWI), and increasing coordination across regulators were met with strong and widespread support from respondents. Several respondents suggested exploring possibilities for coordinating with regulators beyond the sector also, in areas where there might be a shared interest.

We will continue to build on our existing partnerships and ensure that opportunities for coordination on the innovation front are developed. We will also further explore the possibilities for wider regulatory coordination and collaboration.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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