

**Ofwat's Innovation funding and competition:
Further consultation on design and implementations
CONSULTATION RESPONSE FROM AGILITY ECO SERVICES LIMITED, 24 June 2020**

Thank you for the opportunity to respond to this consultation. We are pleased to comment on the outstanding policy issues for the £200 million innovation fund.

We warmly welcome the fund to encourage water and wastewater companies to collaborate with each other and with other companies in their supply chains and beyond, to drive improvements and innovation in the key challenges faced by the water sector.

We are pleased that Ofwat is defining innovation more widely than simply the development of new technologies to address the big challenges facing the water industry, and that innovation in systems, processes, business models and people will be included in the competition.

We were surprised and disappointed to find that there is no mention of affordability for low income households and vulnerability in the consultation document. Affordability and meeting customers' diverse needs are at the core of the 'Time to act, together' strategy. Affordability and vulnerability were also key themes in the PR19 price review.

So we were pleased to have confirmed at the 'Innovation fund for the future' webinar on the 10th June that Ofwat is encouraging proposals through this Innovation Competition, with the aim of addressing water poverty and improving services for people with affordability issues and vulnerable customers who have complex needs. It would be helpful if this was brought out more in the guidance. Given the extent of the issues around vulnerability and ability to pay we set out below, we propose that you give explicit guidance that Ofwat's assessment of every innovation proposal put forward will include consideration of its potential impact on vulnerability in communities and households and ability to pay.

AgilityEco is a leading organisation in the field of low carbon and energy efficiency services, providing practical support and advice to vulnerable and fuel poor customers. As a sector leader in our field, we have significant first-hand experience of the benefit that utility companies can provide to these consumers, through their licence obligations, price controls and partnership working.

Our response is thus focused on our concern for vulnerable customers and the provision for them in PR19 and the Innovation Competition.

The most common bills that people fall behind on are council tax, gas, electricity and water. People who have been most impacted by coronavirus are, in many cases, in a more vulnerable situation than prior to the pandemic, due to ill health, social and mental problems and/or dramatic financial implications. According to Citizen's Advice 'Near the Cliff Edge' report, 12% of adults – around 6 million people - are saying they are behind on household bills due to the current crisis. A further 13%, almost 7 million more, are expecting to fall behind once temporary protections for debt are lifted. The impacts for customers and businesses are going to be deep and long term and innovative approaches and solutions across sectors will be paramount.

The water companies have made some plausible commitments to support vulnerable customers in their PR19 business plans. They have also responded commendably to Covid-19 by supporting customers through payment arrangements, increased social tariffs and sign up to the Priority Services Register to benefit from those services. There is, however, a long way to go. In particular, there is evidence that vulnerable customers are let down in the most urgent of circumstances. For example, Ofwat's 'Out in the Cold' report highlighted that customers that need protecting often don't get the right support in the event of a service outage. An unfortunate example of this was during the cold weather in late February and early March 2018, when councils and voluntary groups had to step in.

To bring about the level of change required to make a real difference to people's lives and to meet the sectors ambition to advance the provision of public value, innovation is required.

Inability to pay for energy and water and experiencing vulnerability are common threads for many households. Yet, the difference in the number and extent to which low income and vulnerable customers are helped across the utility sectors is quite stark.

By 2025, the target to increase households on the water companies' Priority Services Register is to move from the current 0.5 million to 2.5 million, whereas in the energy industry there are already 6.7 million electricity customers and 5.6 million gas customers on the equivalent energy registers.

In Ofwat's PR19 final determination summary it states that there are 3 million households struggling to pay their water bills and yet by 2025 only 1.4 million will have concessionary tariffs and only a further 70,000 customers will receive help through pay matching and hardship funds. Each water company has its own scheme to help customers and there is inconsistency in level of support and the type of support across the industry.

This is in contrast to £341 million of annual support in the energy sector through Warm Home Discount, which in 2018/19 included 2.2 million customers receiving a £140 winter bill discount. The additional support for low income and vulnerable households through energy efficiency and heating provision under the Energy Company Obligation brings the yearly total available to such households to around £1bn.

Covid-19 has heightened the level of consumer debt. Over the last decade, water companies have seen a rise in bad debt in the industry as a result of some households not paying or not able to pay their water and sewerage bills. The level of bad debt in the water industry is approximately three times higher than that of the energy sector, despite water and sewerage bills being around a third of the cost of average energy bills (Defra).

Water companies could work with delivery partners to innovate and provide a holistic programme of support and help them with water efficiency, switching to a water meter, budget and debt management, income maximisation and managing other utility bills.

The water and energy sectors are not only linked by both experiencing problems with customers meeting bill payments. They are both vital services brought into the home and once there they interact directly through heating and hot water systems. We think this is another area where the

innovation scheme guidance could further bring out the opportunities from the two sectors working together. Finding joined up ways to improve the basic assistance to low income and vulnerable households on both energy and water services makes economic sense, as well as serving customers better.

We have previously raised how we believe so much more can be done to provide a joined up approach across the utilities, in public policy, across regulators and with active partnerships, to drive innovative approaches and improved efficiency across the services.

There is 20 years of learning and evidence available from the energy sector on how to really drive down capita consumption, change behaviours and provide support services to vulnerable customers and this learning should be shared across the water industry.

Schemes such as the Energy Company Obligation, the Warm Home Discount Industry Initiatives, Fuel Poor Network Extension Scheme, and the Warm Homes Fund have provided the frameworks and funding and innovative solutions have developed as a result. Examples include those developed and delivered by AgilityEco such as LEAP, HEART, ECHO etc (see below under the introduction to AgilityEco).

By working with delivery partners, such as ourselves, water and energy utilities can have a coherent approach to maximise outcomes for vulnerable energy and water poor households and drive a joined-up approach in tackling these issues.

Utilities are faced with many profound complex challenges and are engaging their stakeholders on these issues, population growth, climate change, the net zero carbon emission target, digital and energy system transitions, affordability and now the impacts of Covid-19. All companies have an important role to play in setting a path to a resilient and sustainable future, ensuring people who have the most to gain and the most to lose, that is the most vulnerable, are not left behind.

Ofwat's innovation competition should drive partnership working across sectors, to engage the 'hardest to reach' and ensure they benefit from fair and inclusive future markets.

Here are some specific points in our response to the questions in this consultation that we would like to highlight.

- We feel strongly that affordability and vulnerability should be an explicit theme of the Innovation Competition. Potentially 13 million people in the UK will be impacted long term by Covid-19 and the competition should drive innovation to provide tailored support and enable them to become sustainable. We believe proposals on this theme should be encouraged given the risk of a second wave of the virus or a new virus emerging.
- There should be fair access for innovators across all the competition themes. Third parties should be invited to have input into the Innovation strategy and have access to, and on-going dialogue with, water companies to collaborate on potential proposals.
- There is significant scope for the water sector to share and make better use of data available.

An introduction to AgilityEco

AgilityEco is a market leader in the management and delivery of innovative services to support low income and vulnerable households that need a helping hand. We provide practical help with energy and water efficiency, utility bills, household finances and vulnerability.

We work with energy suppliers, network companies, water companies, local authorities and housing providers to plan, fund and manage services to **support households with affordability and vulnerability issues**. We deliver these services through our carefully chosen national network of trusted and experienced partners.

In 2018-19 we supported over 40,000 households and achieved £177 million worth of lifetime energy bill savings across the UK, through our support programmes including [LEAP](#), [ECHO](#), and [HEART](#).

We have developed a unique approach that brings together, funding and delivery of energy efficiency and heating measures, high quality vulnerable customer support, delivered at scale through partnership working with local authorities and local agencies. You can see more in our [Impact Report for 2018-19](#)

The chart below gives an example of the kind of life-changing outcomes that can be achieved by bringing the various strands of help and support together for vulnerable households:



Our goal is to deliver better outcomes for those in fuel poor and vulnerable situations, supporting their health, safety, and wellbeing.

Q1 and Q2 Do you agree with our proposed default arrangements for managing IPR and royalties? Do you think these arrangements work for different types of projects and activities? What alternative arrangements should we be considering for IPR/ royalties?

We think that these arrangements seem reasonable and support the proposal of a default position but with the potential for a case-by-case review if required.

Q3: Do you agree with the principle that data generated through the innovation competition should be open by default?

Yes, we agree that there is significant scope for the water sector to share and make better use of data available. For example, there is a huge amount of insight and information available between statutory agencies and innovation and delivery partners and we would support a more open and accessible approach to help water companies better identify and understand their vulnerable customers and enable outreach activity, delivered at scale.

Q4 Do you agree with our proposed approach that we should consider alternative arrangements beyond company contributions?

Yes, we agree with Ofwat's flexible approach to encourage companies to propose alternatives which demonstrate the company commitments to the project and also to optimise wider Government and regional funding. For example, there could be an integrated cross sector regional programme, developed and delivered by an intermediary such as AgilityEco in partnership with utilities, local authorities and local charities, to tackle water and energy poverty and support people struggling with household bills and people with complex needs. The programme could be co-funded through Ofwat's innovation funding and other funding such as Energy Company Obligation or Warm Home Discount Industry Initiatives.

Intermediaries and companies such as AgilityEco have significant first-hand experience of engaging vulnerable customers, accessing and optimising available funding and driving a joined-up approach to tackle societal and environmental issues, providing life changing outcomes for households.

Q5: Do you agree that a guideline minimum company contribution of 10% is appropriate in this context?

In principle we agree with this, however who contributes and what amounts would depend upon the partnerships involved, the scale and value of the projects and the size of the partnership organisations. We agree that other arrangements should be of consideration. Every project may have a different arrangement and the governance framework and the one-stop-shop should be able to provide support and guidance.

Q6: Do you agree with the overarching approach we set out here?

Yes, we agree in principle. We are pleased that the intention is to retain flexibility on the types of projects and we welcome the examples of the parameters to take into account. We believe affordability for very low-income households and vulnerability are a specific issue that should be addressed through the competition.

To prevent an unintended bias of the projects being funded and some proposals being marginalised, having a wide stakeholder input into the Joint Innovation Strategy at an early stage will be key, as will having a process where third parties can engage with water companies and have fair access both in advance of and during the bidding process.

Q7: What are your views on introducing separate, proportionate, arrangements for small-scale projects? How might we define small-scale projects for the purposes of the innovation competition?

The definition of small-scale projects may be the very early development of a product, new technology or a new system, which may not otherwise be pursued due to lack of resources or because of the length of time required to trial and test.

Q8: Do you agree with our proposal for ensuring roll-out is at the heart of the innovation competition? How might we reward both leaders and fast followers in?

We see many research projects and small-scale innovative pilots that don't reach scale or become embedded across organisations due to lack of resources, funding, and co-ordination. We totally agree that the overall aim of any innovation competition proposal should be to roll out at scale.

Companies should consider this and include, where appropriate, roll out planning when setting goals and objectives at the bidding stage and this would be agreed in the funding conditions i.e. how ramping up would be enabled across the company's region and across the sector if appropriate once tested and proven against the business case outcomes. We would note that as transformative outcomes are being sought it is more likely that not all projects will move to roll out as greater risk and uncertainty is likely to be involved. We welcome the acknowledgement in the consultation that not all projects will be successful and that this is acceptable as long as learning is taken from them.

It may be appropriate to reward fast followers to roll out once a project has been proven and the ROI and benefits are such that it should be rolled out at scale and at pace across the sector.

Q9: What practical arrangements should we introduce to ensure adequate ring-fencing of the innovation funding?

We agree with all 3 stages to protect customers' interests.

The approach should also include another stage to protect third-party agreements and payment arrangements with the water companies.

Q10: Do you think the proposed innovation challenge approach will help better enable partnerships and collaboration between companies and third parties and in particular smaller

innovators? Are there alternative approaches we should be considering? How can we make sure this approach works in practice?

We fully support and welcome third parties being able to;

- work with water companies in putting bids together and
- being able to pitch ideas directly to the water companies and to be sponsored by one or more of them

The success of this will depend upon,

- a clear process to reach out to and engage all interested third parties across England and Wales to optimise the competition opportunity and draw in strong prospective applications. We believe it is important that emphasis is placed on projects beyond technological ones coming forward, whether they are to do with process, customer relationships, etc. There is a risk that innovation schemes get swamped by technological developments that may not be as beneficial as other proposals. The assessment criteria need to address this and the expert panel needs to be comprised of a broad range of expertise.
- Third parties being able to have access and ongoing dialogues with the right people in the water organisations, at concept through to business case stage. This may be through various formal and informal meetings and forums.

We envisage this will include interested third parties having input into the Joint Innovation Strategy, by presenting their case for specific challenges in line with the innovation competition key themes and known to them from their own stakeholder perspectives. We would like the supply chain and potential partners to have input at an early stage, along with wider stakeholder groups.

We would like a level of confidence that the process will ensure all proposals are fairly reviewed and water companies sponsor the ones that would have the best outcomes and impacts for their customers. There should be assessment criteria set independently by Ofwat and the independent organisation supporting the innovation competition and the expert panel.

We also welcome the proposed one stop shop to provide regulatory advice to third parties to help get new ideas off the ground. We think this will be key to encouraging innovators to participate. Holding 'fairs' or 'market places' that bring water companies and others together will help both establish partnerships and facilitate transparency around the deployment of the fund.

Q11: Do you agree with our proposed approach to returning funds to customers? Are there any other circumstances, not considered here, under which we might consider returning funds to customers?

We agree and support Ofwat's proposed approach.

Q12: Do you agree with our proposed approach for managing interactions with the price review?

We believe the commitments in the PR19 business plans for supporting vulnerable households are more stretching than previous plans but limiting in innovation and budget allowance. As highlighted

at the beginning of this document, by 2025 through the existing PR19 framework, only 1.4 million out of the 3 million households struggling to pay will receive concessionary tariffs and just a further 70,000 will receive payment and debt support. Whilst we trust Ofwat will be holding companies to account to deliver to their commitments, the Innovation Competition gives a welcomed opportunity to fund innovative projects that provide greater value and far wider and holistic support for struggling households and support the sector's ambition to end water poverty.

We believe the PR19 framework and the proposed Innovation funding framework will ensure there is the right governance to ensure one does not detract from the other in terms of delivery and outcome performances.

What's more, the success of the Innovation Competition should inform the future price reviews with many of the activities becoming business as usual, enabling a better value, higher performing sector.

Q13: Do you agree with our proposed amendments to the principles? Are any further amendments to the principles required to reflect our approach to outstanding policy issues outlined in the document?

We agree with all the proposed amendments.

AgilityEco particularly welcomes Ofwat's intention for the Innovation funding to be far wider than new technologies and include innovation in systems, processes and people to support activities.

We are also pleased to have confirmation in the webinar on 10th June that Ofwat encourages innovation to support the most vulnerable of customers. Whilst these projects may be to the greater benefits of vulnerable groups, all customers will benefit from improvements and best practice in accessibility, inclusion and social equality. Vulnerability is complex and because of its fluid nature it means it can be temporary, sporadic, or permanent.

Vulnerability if not permanent is often due to major changes in life, such as temporary ill health, bereavement, loss of job, a breakdown in a relationship and most of us will experience vulnerability during our lives. Thus, innovation and solutions to help address the growing issues and complexities of vulnerability must be to the benefit of all customers and the general public.

Q14: Do you agree with our proposed focus, major strategic themes and overall approach for the competition?

In view of potentially 13 million people in the UK, being impacted long term by Covid-19, we strongly feel that responding to affordability and vulnerability issues should be explicit and be one of the focus areas.

Q15: What is the appropriate split of available funding

For the pilot year, maybe this is decided when the proposals are received and assessed.

Q16: What are your views on the feasibility of running all three types of activities in the pilot year and on the proposed timings in Annex 3?

The water companies will have a better view on this. In view of the delays and the impacts of Covid-19 generally, the timeline may be challenging to have all 3 components being in place by Q4. However, if the framework, processes and engagement with innovators can be put in place in time, it would be good to get some projects kick started early next year to provide the impetus and interest for others.

Q17: Do you agree with our proposed approach to key implementation considerations outlined here?

Ofwat's approach to key implementation seems sensible and will need to evolve and be refined over time.

Conclusions

Overall, we are very supportive of Ofwat's proposals presented, on the outstanding issues for the Innovation Competition and we are very welcoming of the funding itself.

We warmly welcome the fact that Ofwat view innovative ways of doing things (systems, processes, people, business models) as being just as important as technology innovation.

We are pleased that partnerships and collaboration are at the heart of the innovation funding and we welcome the emphasis on roll-out across the sector.

Innovation in addressing affordability and supporting vulnerable customers should be explicitly included in the funding competition and we believe there is a huge opportunity to deliver life-changing outcomes for the most vulnerable of customers, through partnership working and cross utility collaboration. We propose that Ofwat should consider each and every innovation proposal from the perspective of its impact on vulnerability and ability to pay.

Thank you once again for the opportunity to comment to this important consultation.

I would very much like AgilityEco to be involved in future workshops and stakeholder events to support and participate in the planning of this competition.

Yours sincerely,

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