

Syrinx Limited - response via email

Innovation Funding and Competition: Further Consultation on Design and Implementation

In response to this consultation we comment as follows:

Q.1 and 2	IPR and Royalties
	<p>It is important the Competition is clear as to its aim namely:</p> <ul style="list-style-type: none">• is it to encourage greater exploration of innovation within water utilities; or• is it to create an environment to attract risk capital into the sector including start-ups for which, if starting in the UK, success with UK utilities will make or break their broader prospects <p>Excluding philanthropic investment, private investors only invest in early stage companies in pursuit of a financial return. Indeed, to merit investment, given the risks and likelihood of failure across a portfolio of investments, it is imperative that investors can see a prospect of securing a return on investment equal to a multiple of the amount they invest.</p> <p>If that upside potential is not there, the start up will almost certainly not secure private investment.</p> <p>If that upside potential is not there, the water sector will retain its reputation as being a very poor sector to invest in.</p> <p>If Foreground IPR has to be provided royalty free to all 17 WASCOs then this scheme ceases to have relevance to start-up companies beyond being a possible source of cashflow/grant income. There is no return potential capable of supporting growth and a return elsewhere and this scheme is hence merely duplicative of UKInnovate, UKWIR etc.</p> <p>If, of course, the aim of this scheme is to focus on utilities being innovative without regard to creating an innovative sector more generally then that approach is fine. It will though predominantly attract larger consultancies as a means of selling. It will not create a platform capable of attractive risk finance to younger companies.</p> <p>If the aim of the scheme, however, is to generate an innovative sector supported by private risk capital, it is imperative the participating start-up can generate an acceptable return. To do that, it is in turn imperative they own the Foreground IPR.</p> <p>Of course it is equitable that a start-up not be able to “gouge” the 17 WASCOs having developed an innovation with their support but mechanisms are used already to achieve that. Options including receiving a % of royalties on sales of the innovation either nationally or globally for a defined period. Price protection mechanisms are also possible. A return must be achievable however.</p> <p>Syrinx's success globally is predominantly based on its work regarding trunk main leakage with Thames Water and on high resolution pressure monitoring with Anglian Water. In both instances Syrinix owned the Foreground IP whilst the the utilities have benefitted as well.</p>

	Subject to a minimum of protections, if the aim is to create genuine innovation from earlier stage companies, the scheme should have the confidence to trust the market as an allocator of risk and reward.
Q.3	<p>Open Data</p> <p>The more that utilities make data available the better.</p> <p>Calculating the Return on Investment of a potential innovation is hugely difficult in the water sector given the lack of detailed data.</p> <p>Transport for London provides an excellent example of the benefits achievable by making more data available with its doing so generating multiple private sector innovations. Subject to not releasing allowing the identification of individual consumptions, there would be potentially very significant benefits from an on-going provision of anonymised datasets.</p>
Q.4 and 5	<p>Risk Sharing</p> <p>Without “skin in the game”, the reality is that there is no accountability and no requirement to drive for success.</p> <p>Indeed, where solutions are provided for free there is a greater likelihood of:</p> <ul style="list-style-type: none"> • the project failing • the innovation provider being blamed without reference to the lack of support provided • the upshot of the “free” trial being to create a barrier to further adoption rather than to facilitate adoption <p>In Syrinix’s experience:</p> <ul style="list-style-type: none"> • there has not been a single substantive instance of a free trial proving successful in leading to broader sales; • there are instances of a free trial being provided, its failing and that failure subsequently blocking further engagement with that utility; • where success has been created it is because the utility has engaged positively having put its own financial participation (NB not just time!) at risk. <p>As a starting point, 10% seems acceptable but only on the basis genuine innovators retain ownership of Foreground IPR.</p>
Q.6 - 8	<p>Types of Project Funded</p> <p>It would be disappointing for funding to be solely focussed on later stage innovation though clearly an innovation must have potential for generating higher revenue for it to merit any funding.</p> <p>The importance of protecting an innovation project from the “day job” of utility participants can also not be stressed enough.</p> <p>Asking a commercial team to work on an innovation project in addition to the day to day activities they were already busy on can be very problematic. The lack of time risks creating an incentive for the project to fail to free time up again with little upside for the project being a success. The lack of proven success meanwhile means there is no proven success from elsewhere to incentivise engagement.</p>

	<p>The Anglian Water shop window has been exceptionally effective in addressing these challenges. First of all, space is provided for the innovation to be explored in a balanced and effective way to see if it really can generate benefits for Anglian Water. If that is proven, there is then created an example to use to encourage commercial teams to use the innovation not as “yet another toy from upstairs” but as a genuine means of improving how they work.</p>
Q.9 – 16	No comment.
Q.17	<p>The imposition of anything beyond a very light touch process is potentially problematic.</p> <p>The most effective allocator of capital is market forces. From Totex through to performance targets to this fund (subject to its structuring), if the utility is incentivised to benefit from innovation then it will seek out that innovation – something that is already being seen with the regulatory changes made in the current and preceding AMP periods.</p> <p>Of course the process must be managed and checks made to ensure funding is used for the purposes intended. Beyond that, however, the administrator must not in any way become a judge of what is a progressed and is not (beyond very broad objectively set parameters).</p> <p>The sector already suffers in some respects from there being a “Club” of the usual parties involved in some research/innovation projects whilst the current context leans towards expectations of utilities receiving innovation for free (with the risks of that noted above). That must change if innovators are to be attracted to the sector. Market forces are the best means of achieving that, not any individual organisation.</p>

Yours faithfully,

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