

# **Ofwat Innovation funding and competition**

## **Further consultation on design and implementation**

**Response from: Energy Saving Trust**

**Date: 24th June 2020**

**(Contact: [REDACTED])**

**Question 1: 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 (e.g. new technology vs. process innovation, roll-out activities etc.)?**

The proposed arrangements for background pre-existing IPR (exists prior to the submission of any bids to the innovation competition) and foreground IPR (new intellectual property that is created through a project funded by the innovation competition) seems a sensible approach. Having the right IPR arrangements in place is important in order to incentivise participation of innovators and businesses and not deter projects on the basis of potential complexities of IPR.

The IPR question can also be influenced by the aims of the programme for example, for the public good or as a business support mechanism and balancing protecting the benefits of customers with incentivising new ideas. In this case, the Fund is supporting both. Therefore, the principle of 'open source' and/or a certain level of sharing of findings is worth considering, and this does fit with the stated aims of the Fund.

This is something that can be managed via the default position and in the project contractual arrangements. The Year 1 pilot trial will be an opportunity to assess the merits of this approach and consider any alternatives (e.g. per project basis) as part of the end of year programme evaluation.

Legally, IPR needs to sit with someone.

Is there a challenge around maintaining competition law here? The requirement for match funding (10% input) could create specific queries around IPR so it is important that Ofwat recognise the resources that may be required to resolve issues on this matter, particularly with early projects where previous precedent is not available to be followed.

**Question 2: What alternative arrangements should we be considering for IPR/royalties?**

The default arrangement is that royalties earned through Foreground IPR will be shared with all customers in proportion to the amount collectively funded through the innovation competition. But alternative arrangements could include a "revolving fund" model returning any royalties earned through Foreground IPR to the fund, increasing the available fund pot or reducing customers' future contributions. The key objective is for customers to benefit from royalties, where these are the result of customer-funded innovation competition projects.

This sounds really interesting and seems like a sensible and good solution that benefits the customer. A consideration would be the level of resource required to sort the legal arrangements for this and how to ensure grantees actually keep paying those royalties in the future.

**Question 3: Do you agree with the principle that data generated through the innovation competition should be open by default?**

The consultation document proposes that, wherever appropriate, data should be open to help drive innovation, provide wider access to information, encourage new ideas and solutions and help further partnerships and relationships between water companies and others operating in their local areas. Also, that there is an ethical reason for water

companies to share data where possible to drive public value. It also proposes that this type of approach could be facilitated by a triage process to assess any restrictions on access and where open data is not appropriate, the aim is to preserve the value of the dataset for as many users as possible.

This seems a sensible approach and is similar to the Electricity Network Innovation Competition (NIC) and other schemes. A benefit is sharing learning from the projects funded by the programme (a core aim of the Fund) and the IPR approach outlined can be an enabler for information to be made available. There are a number of vehicles and mechanisms for supporting this which can be expanded upon in our tender response, including structuring criteria and funding so that sharing outcomes and publicly reporting findings are requirements built into the eligibility criteria.

However, need to be careful to balance this so that projects are not deterred from applying by a requirement that could remove their competitive edge.

GDPR is a consideration if/where personal data is collected as part of projects.

**Question 4: Do you agree with our proposed approach and that we should consider alternative arrangements beyond company contributions?**

The proposed approach to consider alternative funding arrangements beyond company financial contributions, including options such as commercial partnerships or companies bringing funding from other sources, seems sensible. This is likely to encourage collaboration which is central to developing/implementing successful projects; and gain commitment from companies for projects.

Any work to invite contributions to the fund requires a clear and robust financial process that also makes it clear who the decision makers are. Competition between companies to demonstrate who is doing the most could lead to marketing challenges – again a robust system could resolve this while a minimum amount means that no company is exempt. It is also important to think through how the grants will work, to avoid muddying the water between what is public-good grant funded work and what is commercial.

**Question 5: Do you agree that a guideline minimum company contribution of 10% is appropriate**

The concept and notion of a minimum level of match funding seems like a good idea. This could be scaled and proportionate to the size of the bid – i.e. a larger bid requires a higher % of input with minimum level being a good idea. The level might vary for different organisations? For example, a water company supporting and involved in a project that might also deliver some commercial benefit should (perhaps) provide more than 10%, but for non-profits, smaller innovator SME's or smaller water companies a 10% contribution might be appropriate. At higher levels, a downside might be less interest and uptake leading to increased promotion and chasing of applications.

**Question 6: Do you agree with the overarching approach we set out here?**

The parameters that could be considered to determine the type of projects funded are set out in the consultation paper as follows:

- Technology Readiness Levels (TRLs) assess the maturity of evolving technology or solutions.
- Scale/ financial value of projects: consider different proportionate arrangements for small-scale projects.
- Nature of projects – e.g. new technology, new processes or ways of doing things
- Projects that address specific issues – e.g. environment, customer service, resilience etc.

The proposed approach is to retain flexibility and not create an unintended bias towards certain types of projects or issues.

This seems like a sensible approach including setting appropriate award criteria, plus keeping this under regular review to ensure that it is guided by and reflects the themes in the water companies' joint innovation strategy to support projects aligned with this. This will help to identify projects that set out to provide solutions to meet the gaps, opportunities and specific challenges identified by water companies strategies; while clear and well defined criteria will also avoid unintended bias towards certain types of projects. Allowing the competition to include technologies, new business models and services, transformation in processes and ways of working also means that a wide scope of solutions can be accommodated.

Will there be an annual/regular review of the strategy and, if so, this will need to be fed into the Fund criteria?

It is important to establish process and be as clear as possible on what impacts/outcomes/metrics the Fund wants/expects projects to achieve in advance for different project types – and then have clear eligibility criteria and inform applicants up front, in order to set expectations.

As well as setting appropriate criteria, it is also important to ensure clarity in the scheme guidelines to encourage the broad range and desired type of applications. Innovation is expensive and risky so the programme needs to be clear about what Technology Readiness Levels (TRLs) are being targeted. Exclude any BAU

Agree that the idea of having the first Year 1 Trial will support this set-up and will be a useful learning curve in this context.

**Question 7: 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?**

There are benefits to having a balanced range of project sizes and fund values including a mixture of large and smaller projects and there are various different ways proportionate arrangements for small scale projects can be managed.

Projects can be scaled by funding amount (<50k, >100k, >500k, >£1M). Where there are large funds, consider ring fencing a separate pot for small grants of less than say £50k to help the Fund stay accessible for smaller water companies and innovator projects. There is an expectation that smaller projects will require less robust due diligence and support, however, this is not always the case in practice. Risk levels can be set for each amount of funding; aim for a mixture of new and more mature applications; and review smaller projects separately to larger ones, grouping projects in this way can also help assessors by scoring small projects against each other.

**Question 8: 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 this space?**

The importance of ensuring innovative solutions funded by the competition have practical tangible outcomes (not just proof of concept) and are effectively rolled-out and implemented/deployed at scale is emphasised in the consultation document and the innovation competition is to be designed in order to facilitate and support this. This seems to be a sound proposal and aim.

This can be managed through setting detailed criteria for funding with sections in the application (and matching scoring criteria) for companies bidding to articulate how their idea is replicable/scalable beyond the scope of the project – and to outline the plan in place for rolling it out and working with others to ensure roll-out and dissemination, replication and sharing of outcomes, learnings etcetera. The assessment process can reward projects that include roll-out and plans to develop the outputs further; perhaps linked with extra funding or support for these types of project and leaders/fast followers? Also beneficial to enable support to be provided to those at early incubation stage providing the flexibility to identify and fund projects that deliver small outcomes now but could unlock huge impact in future. Clear communication about this approach to all who are applying as part of the application process is key.

**Question 9: What practical arrangements should we introduce to ensure adequate ring-fencing of the innovation funding?**

Funding for the competition will be ringfenced and administered such that it cannot be used for other purposes at the following stages:

- Stage 1: when water companies collect revenues from their customers for the purposes of collective innovation funding
- Stage 2: once all additional revenue collected from customers for the purposes of collective innovation funding has been transferred to the joint pot; and
- Stage 3: once a water company has been awarded funding under the innovation competition for the purposes of delivering a project, or where water companies have been awarded funding for enabling activities.

The proposed approach is for water companies to pay in revenue collected from their customers for the collective innovation funding into a joint pot. This will need to balance the staggered nature of customer bill payments, with the need for the joint pot to be adequately resourced at all times.

The proposed approach to ensure adequate ring-fencing of the innovation funding for grantees and grant admin seems like a sensible approach; and also aids transparency, a coordinated administrative process, reporting and for the work to be comparable. From a Fund management perspective, some projects will take longer than others to meet funding requirements, and fluidity of timings is key to ensure that there is enough money in the pot to deliver upcoming drawdowns.

**Question 10: Do you think the proposed innovation challenge approach will help better enable partnerships and collaboration between companies and third-parties, in particular smaller innovators?**

One of the key principles underpinning the innovation funding is for water companies to work more closely with each other, the supply chain, innovators and other stakeholders, across sectors (including those who do not necessarily operate within the water sector) to facilitate partnerships and put together bids. The innovation challenge approach seems like a sensible and practical way to provide accessibility for a wider range of stakeholders by helping smaller players overcome some of the challenges of accessing funding for innovation. There is a lot of relevant innovation outside water companies and this looks like a good vehicle for capturing that through partnership and collaboration fostering cross-sector and cross-functional insight and diversity of ideas.

The competition structure with water companies accountable for projects, delivery and management of funds enabling third party innovators and SME's to indirectly access the competition through sponsorship of these ideas and collaborative bids also seems like a sensible approach to driving forward collaboration and innovation.

The proposed Year 1 Trial/Pilot will be a good opportunity to test out different ways of nurturing collaboration and innovation and learn from this approach.

Within the ITT, when it is published, could you provide further clarity on the Enabling Projects and your vision of their purpose and what they might comprise – and their potential interaction with the Innovation in Water Challenge and Main Competition, for example, are they envisaged as a model to support incubation of projects as a means to support roll-out and wider dissemination and sharing of learnings from projects funded by the competition.

**Question 11: 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 funding to customers?**

It is proposed that all unused funds are to be returned to customers (taking into account that some projects, especially those funded in the latter years of the innovation competition may require funding beyond 2025) and adjustments may be made where it is considered that projects have not complied with funding conditions (without reasonable justification) in order to safeguard the interests of customers. It is also worth noting that, in terms of timing, some projects will take longer than others so each competition round should have an allocated period of time after it to resolve all issues. Where innovative endeavours have not succeeded, it is not expected that funding will be returned to customers (provided that companies have acted in the interests of customers) but that learnings will be shared with others to facilitate lessons to be learnt. This, alongside focussing on projects that deliver value for customers and are in line with the water companies' strategy and identified challenges, seems like a sensible approach to provide value for money for customers and safeguard their interests together with providing support to give projects the best possible chance of success.

**Question 12: Q12: Do you agree with our proposed approach for managing interactions with the price review?**

The innovation funding and competition is designed to complement the existing PR19 framework in terms of facilitating innovation by giving companies the flexibility and freedom to adopt more efficient and effective means of delivering.

Agree that these projects should be adding value not removing value from existing work.

**Question 13: 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 this document?**

The principles to the competition which will run during the period 2020-2025 all seem sensible broadly covering innovation, addressing key challenges in the industry, focus on roll-out of innovations at scale, collaborative working, sharing of project outcomes/learnings via an open-by-default approach and focus on the benefits and public value from the projects.

## **Section 2: Design and implementation of the competition**

Covers the following:

- Piloting the innovation competition and innovation activities (2020-21)
- Supporting the delivery of the innovation competition
- Our proposal for the pilot year
- Focus of the innovation funding
- Eligibility and assessment criteria
- Timing and frequency of the competition
- Innovation in Water Challenge
- Main competition
- Enabling activities

**Question 14: Do you agree with our proposed focus, major strategic themes and overall approach for the competition?**

The aim for Year 1 (2020-2021) is to pilot the innovation competition and innovation activities including setting up the competition and framework for funding and act as an opportunity to test out the processes which may be reviewed and adapted for the remainder of the competition, based on the learnings of Year 1:

- Start making a difference: focusing the competition in the first year on identifying and funding solutions that are closer to commercialisation or more mature in terms of TRL. This could include smaller projects which could nonetheless be transformative and make a significant positive difference. All projects funded should still be in line with our principles.
- Informing the longer-term: we would use this first year to work with the sector to identify key themes/ issues to be addressed in subsequent years of the competition. This is also an opportunity to test out and evaluate processes to ensure the innovation competition delivers in the longer term.
- Taking steps to encourage the right culture and skills for innovation: we think the first year would be a good time to test out different ways of nurturing collaboration, not just between companies but also with the supply chain and wider stakeholders.

This approach seems sensible and agree with the proposed focus, major strategic themes and overall approach for the competition including the Year 1 Pilot/Trial which will provide a

useful opportunity for learnings to be gained by Ofwat and the management contractor around the competition management – and also among water companies and collaborators across the sector considering and preparing their bids. Allowing sufficient time for the set-up of the management processes, funding eligibility and criteria will pay dividends in the longer-term smooth running of the scheme so we would suggest that, while agile and quick mobilisation is required, this is not at the expense of implementing robust and well-considered processes. The same also applies to the receipt and processing of early applications.

Additionally, raising awareness and recruiting applicants will also need to be carried out at the beginning of Year 1 and this will provide the opportunity for the competition to build in momentum in terms of attracting suitable projects. This can run partially in parallel with the set-up activities, however, applicant recruitment will be a key challenge and shouldn't be underestimated. Will the management contractor be involved in participant promotion and recruitment, and will details of how this will be managed provided in ITT?

### Supporting the delivery of the innovation competition

The proposed approach is to appoint an organisation to support the delivery of the innovation competition, with Ofwat retaining strategic control and taking a role in final approval of funding.

The management contractor organisation's role is threefold:

1. Assist in the final design of the innovation competition to ensure processes are efficient and robust
2. Provide technical expertise and advice on innovation through an independent panel of experts. The panel will issue recommendations for funding and help ensure our decision-making is robust.
3. Provide administrative support in the delivery of the competition covering:

### **Feedback on the above outline and the slide showing the potential Split of Roles between Ofwat and the management contractor appointed to help run the competition:**

**Application Process** – the alternative approach suggests 'pro-active mentoring for participants'. However, we would suggest that the Development Officers primary role is to facilitate project delivery and, therefore, probably wouldn't take on this role which is better suited to the water company 'sponsor' utilising their technical, sector and project aims knowledge and also avoids any potential for conflicts of interest arising from close involvement in the delivery and then subsequent monitoring of the project outcomes.

**Assessment and Scrutiny of Bids** – the proposed approach suggests 'taking the lead in assessing proposals against eligibility and assessment criteria (non-technical assessment)' which we agree should be a core part of the management contractor role

**Monitoring** – the proposed approach suggests 'Development Officer role to monitor larger projects, ensuring milestones are met' and we agree that these roles are central to the success of managing projects.



**Question 15: What is the appropriate split of available funding between the Innovation in Water Challenge, the main competition and enabling activities?**

Up to £40m will be made available during the pilot year, across three different types of activities to help ensure a wide range of different projects coming forward; actively encourage collaboration and partnerships between water companies and beyond:

1. Innovation in Water Challenge
2. Main innovation competition
3. Enabling activities

The appropriate split of funding between the fund pots (main competition, innovation challenge and enabling activities) in terms of % of the fund to be allocated to each pot will be influenced by the following key factors primarily:

- a) the type of projects will be funded by each pot
- b) the number of projects that it is desired to run funded by each pot (main competition and innovation challenge)
- c) if there will be a maximum / minimum project cost as that will also help to define the likely split of funds
- d) what is to be covered by enabling activities and what these will involve

Anything capital is going to need more funding which suggests that the **main competition** may ultimately require the highest level of funding and investment if this is likely to be where capital projects are funded. It is also worth noting that the development of projects involving collaboration and coordination of multiple stakeholders (water companies and wider stakeholders) will be more complex to manage and will require a lot of management contractor staff time.

Projects identified for the **innovation challenge** are anticipated to be smaller and require lower investment and may, therefore, be the quickest to deploy during the pilot year. However, it is likely that there will be more applications for this type of project activity given the aim of the scheme to foster innovation – and it may be appropriate to fund more of these in Year 1 in order to encourage a wide range of different, innovative and collaborative types of projects and outcomes. So, the split of funding could be set proportionately to achieve this aim. These could be scaled by funding amount (<50k, >100k, >500k, >£1M). Some clear guidance and parameters for applicants, the management contractor and built into the scheme set-up around this will be required, as the challenge will be ensuring companies / projects go into the right bracket. There is an expectation that smaller projects will require less robust due diligence and support, however, this is not always the case in practice. Projects in the early stages of development and innovation of new ideas (that may perhaps be less well-defined and evolving) are likely to need more time and support.

**Enabling Projects** – what is envisaged to be the purpose of the enabling activities, and what will these include? Will the enabling activities be linked to roll out? Or is this a separate set of activities that will support the development and incubation of bids? Again, this will affect the appropriate % split of available funding.

While having a % split between the funding pots is a good idea from a planning, management and costing perspective, also need to ensure building in flexibility and adaptability so that really interesting projects are not excluded by having too strict a quota. In addition, each of the three strands brings important aspects so allocating the funds appropriately is critical to its' success.

The consultation paper mentions allowing innovation projects to be submitted and compete more than once a year to maintain momentum. The benefits of this include a regular flow projects at different stages. However, the benefits of this would need to be balanced against the potential additional burden of running several application rounds per year.

The Year 1 Pilot Trial will be a good opportunity to assess the most appropriate % split of available funding between the Innovation in Water Challenge, the main competition and enabling activities and provide useful learnings and insight for Year 2 and subsequent years.

**Question 16: 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 current proposition in the consultation is to run both the Innovation in Water Challenge and the Main Competition in the pilot year, as well as considering proposals for funding sector-wide enabling activities. Whether to operate the Main Competition, Innovation Challenge and Enabling Activities in Year 1 or focus on two of them is partially dependent on:

- a) the aims for Year 1 e.g. set-up and learning to take forward into Year 2 and beyond
- b) the desired outcomes and projects from each of the activities
- c) what is the purpose of the Enabling Activities – whether these will be linked to roll-out or will support the development and incubation of bids for the Water Challenge and main innovation competition

**Benefits and considerations to running all three funding streams in Year 1:**

The Year 1 Pilot Trial would be a good opportunity to test and develop learnings and experience from running all three funding pots. For example, it would provide useful learnings and insight into the most appropriate % split of available funding between the Innovation in Water Challenge, the main competition and enabling activities that could be taken to inform Year 2 and subsequent years. It would also provide useful understanding of some of the challenges around the assessment, development and management of each of the different types of funding streams and projects therein and enable management processes to be developed and refined to ensure continual improvement in Year 2 and beyond.

Running all three funding pots in Year 1 could also ensure that a wide range of different projects are attracted and come forward; actively encourage collaboration and partnerships between water companies and innovators and SMEs in other sectors.

The success of running all three funding pots in Year 1 will partly depend on the decisions that are made about how the three pots are introduced – all at the beginning of the Year 1 Pilot Year or in a staggered manner – along with the focus on how the funds are distributed and the % split between each funding pot as this will impact the amount of management contractor time spent on setting up each one. The benefits need to be balanced against the potential additional burden of running the three different types of activities in a single year (for the management contractor, Expert Panel and Ofwat). On this point, sufficient time will be needed to mobilise and set up if all three funding pots are offered in the Year 1 Pilot.

Consideration also needs to be given to the promotion and marketing of the scheme in Year 1. While it is expected that the water companies will develop, prepare and submit applications for funding and will, therefore, already have ideas and proposals ‘in the wings’

waiting to apply for funding, it is likely that promotion to raise awareness will be required as well. Therefore, time needs to be allowed for this to take place at the beginning of Year 1 and this may slow down the application and award process.

### **Benefits and considerations to limiting the Fund to two funding streams in Year 1:**

The other potential option is to limit the Fund to two funding streams in Year 1:

- Main Competition and Water Innovation Challenge
- Water Innovation Challenge and Enabling Activities

Promotion and marketing of scheme: as outlined above, promotion and marketing of the scheme in Year 1 is likely to have some impact on the both the number and timing of applications received. While it is expected that the water companies will develop, prepare and submit applications for funding and will, therefore, already have ideas and proposals 'in the wings' waiting to apply for funding, it is likely that promotion to raise awareness will be required as well. Therefore, allowing time for the promotion of the Fund and receipt of suitable applications – and not trying to over-stretch and offer all three strands of the Fund in Year 1 – might be a good idea.

**Water Innovation Challenge:** In either scenario (offer all three funding pots in Year 1, or limit to two funding pots), it makes sense to offer the Water Innovation Challenge as this is where a wide variety of small/medium sized projects can be identified and funded. Also, these are likely to be quicker to get underway with outcomes and roll-out more quickly available during the Year 1 Pilot. They also play prominently to the aim of encouraging innovation and third-party smaller innovators and SME's to participate. If part of the role/purpose of the Water Innovation Challenge is to be a potential vehicle/conduit/incubator for some projects to be trialled and tested and then, if successful, to go through to the larger investment available via the Main Competition in subsequent years, then this also lends itself to the argument that this should be run in all scenarios.

**Main Competition:** The development of complex, large scale and high value capital projects involving multiple stakeholders will require significant time and effort so need to be realistic about what can be achieved in Year 1 and set some not too ambitious targets.

**Enabling Activities:** whether to run the Enabling Activities in the Year 1 Pilot does depend on their purpose. If they are to support the development and incubation of bids for the Water Innovation Challenge and Main Competition, then this activity could be critical to success in Year 1 and would need to be run in parallel. If they are linked to roll-out, then the enabling activities may not be so critical in Year 1 and could be deferred to Year 2 onwards as projects are unlikely to be completed with tangible outcomes ready for roll-out until later in the first year.

### **Timings**

It is proposed to start the Fund set up and design process in Q2 with all three – Main Competition, Water Innovation Challenge and Enabling Activities – launched in Q3 and open for applications during Q3 and Q4 with decisions in Q4 (subject to view from the consultation and management contractor).

These timings seem reasonable. Allowing sufficient time for the set-up of the management processes, funding eligibility and criteria will pay dividends in the longer-term smooth running of the scheme so we would suggest that, while agile and quick mobilisation is required, this

is not at the expense of implementing robust and well-considered processes. The Year 1 Pilot will also provide the opportunity for learnings to be gathered and continual improvement that can be implemented in Year 2 and subsequent years.

This set up activity can also run at the same time as, and in parallel with, awareness raising, promotion and workshops.

While the approach to Year 2 and the remainder of the period may be adapted in light of lessons learnt from the pilot year, the aim will be not to disturb any progress on any existing projects with any unused funding rolled over to future rounds.

**Question 17: Do you agree with our proposed approach to key implementation considerations outlined here?**

The proposed approach to implementation includes the following:

**Application process:** the proposed approach to working with the management contractor organisation seems sensible highlighting the design of the application process for each of the competition rounds needs to be both robust and proportionate as projects will differ in size, nature and value and the aim will be to encourage participation of innovators and businesses and not deter them by a complicated application process.

**Assessment process and decision-making:** the proposed approach to appoint an Expert Panel made up of a broad and representative range of experts across the sector (and potentially beyond to cater for bringing in innovation and ideas from outside the water sector) with appropriate skills, expertise and knowledge to lead on scrutinising and assessing applications is important in terms of selecting projects for funding that will have the potential to be rolled out; and for the management contractor to have a role in liaising with the Panel. As previously mentioned, taking a flexible approach and adapting the level of scrutiny applied to bids so it is proportionate to the size and nature of projects put forward is key. Ofwat will retain strategic control and the ultimate decision will sit with Ofwat, taking into account the recommendations of the independent expert panel.

**Monitoring:** the proposal is for the management contractor to work with companies (e.g. water companies who would be leading on bids and, presumably participators to a lesser extent) to develop and implement a framework to regularly monitor and periodically report on individual project performance.

This needs to form part of set up and process development at the beginning so that expectations (for the management contractor and applicants/bidders) are clear, mechanisms and milestones are in place for measuring progress and the project aims/outcomes are aligned with the water companies' Innovation Strategy. Again, taking a flexible approach and adapting the monitoring requirements proportionately according to the size, complexity, nature and value of the projects seems sensible – otherwise costs and time can become disproportionate. Projects with multiple stakeholders could become complex so establishing a chain of responsibility will be important with the main stakeholder/water company responsible for and involved in the resolution of issues; at the same time ensuring a clear and robust communication process while avoiding the creation of over-dependence of projects on the management contractor.

Will there be guidance about the anticipated monitoring levels in the ITT to help potential management contractors consider this in their bids? Or will suitable levels of support be subject for agreement during set-up?

Finally, setting up an *individual* monitoring programme for each company is likely to be very administratively heavy and a centralised approach for monitoring that uses a standard reporting format might be more useful to minimise confusion and challenges in information capture and transfer. It also offers the additional benefit of being able to make comparisons between similar schemes and for lessons learnt to be identified and compared.

**Evaluation:** the approach outlined seems sound with a review of the effectiveness of the scheme at the end of the Year 1 Pilot Trial enabling learnings to be shared and taken forward to shape the approach in future years. Linking this to some extent with evaluation and outcomes from the projects funded will also be a useful insight.

### **Fund Management**

The consultation document doesn't cover Ofwat's desired approach to the financial management of the Fund and whether this function will be managed by Ofwat or if the management contractor will be required to deliver this element of the scheme. With both options, a clear and robust procedure will need to be agreed as part of the set-up covering the management and payment of claims.

As there is a question mark at the moment over how this could be handled, then this could be managed in the ITT by Ofwat requesting a menu of 'added value' options to be included in bidders tender responses. Bidders could be requested to provide and describe their proposal to delivering the core management contractor service and provide an explanation of how they would deliver an additional menu of options including financial management and other optional or variable elements of the service, reflecting this in the costs as well. We can provide more information on our approach to either option in our tender response.