

# Response to Ofwat on: Innovation funding and competition: further consultation on design and implementation

## From IKT - Institute for Underground Infrastructure

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[www.ikt.institute](http://www.ikt.institute)

### Introduction to my response

Further to our response to your previous consultation on this initiative, thank you for the opportunity for IKT to respond again to this consultation.

My observations are based on 30 years' experience of delivering applied research to the UK water industry and, more recently, of the approach taken to evaluating innovation to address industry needs in Germany, through my current role as UK/Ireland project manager for the independent, not-for-profit **IKT – Institute for Underground Infrastructure gGmbH**.

I also chair the **Sewer Rehabilitation Contact Group** comprising sewer rehabilitation planners and managers from all of the 13 UK/Ireland WaSCs. The Group meets monthly to address common issues and is currently developing a common specification for CIPP sewer rehabilitation in co-operation with the Water UK SIN Group (Sewerage Infrastructure Network).

My experience covers addressing water industry issues concerning environmental performance, drinking water quality, customer education and sewerage infrastructure rehabilitation and, has consequently, provided insight into issues concerning the identification and implementation of innovation across the range of responsibilities of water companies. It has included:

- The International Benchmarking Review - world-wide review of the emerging metric and process benchmarking activities in the water sector – for Ofwat, Thames Water and Ondeo Services (France) 2001-2.
- Head of WRc Approved fitness for purpose scheme, assisting owners of innovative products to independently verify their performance for the water industry 2002 to 2008.
- Head of business development and project management at WRc-NSF for WRAS Approval of materials and fittings in contact with drinking water 2008 – 2013.
- The evaluation of the performance of unleaded brass vs leaded brass water fittings for addressing lead in drinking water - for DWI & UKWIR, 2012-2015
- Customer Education Strategy for Wastewater on sewer misuse, misconnection and sewer flooding - for UKWIR, 2017
- Monitoring Product Labelling and Plastic Content – in non-flushable products – for Water UK 21<sup>st</sup> Century Drainage Programme, 2019
- Current evaluation of the long-term performance of sewer rehabilitation methods, UKWIR.
- Current Partner Project for UK & Irish WaSCs to engage with the current EUR 1.5m project in Germany evaluating the performance of lining systems for the rehabilitation of rising mains.  
<https://www.ikt-online.org/blog/lining-of-pressure-sewers-evaluating-one-of-the-new-frontiers-of-trenchless-technology/>

## **Response to Consultation questions**

**Q1: 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.)?**

Agree. Clearly, the details need to be worked on and the specifics for different types of project may differ. It will be a very important task for the appointed 'supporting organisation' to address to ensure that stakeholders generating or contributing IPR under the scheme clearly understand and have confidence in the arrangements.

Arrangements for IPR ought to be included in the companies' Joint Innovation Strategy and if not, I expect it will be raised by respondees to the consultation they will be running on their draft document when it is issued at the end of June.

**Q2: What alternative arrangements should we be considering for IPR/ royalties?**

No suggestions.

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

Agree. It should be open by default. Clear guidance on the circumstances where data might not be open, or for a mechanism for such cases to be raised by stakeholders and for a decision to be made, will need to be provided when the scheme details are finalised.

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

To maintain flexibility and not stifle 'innovation' other arrangements should not be ruled out. But, clear guidance and/or a mechanism for considering alternative arrangements would need to be set out in the scheme details.

Particular care has to be taken to ensure that should any alternative contribution arrangements involve other stakeholders this does not risk the independence of decision making on the performance and efficacy of a solution.

Innovation should not be driven by ideas that need to find a purpose, but rather by genuine needs of the water industry for which solutions are invited. Any additional funding should not be from organisations with a commercial interest in the outcome, particularly if it relates to the former - finding a use for their idea rather than addressing an actual need.

As explained in my response to the previous Consultation, concerning the arrangements for comparative evaluations of existing and novel technologies that IKT undertakes for German sewer network owners, all project funding comes from the regulator (Environment Ministry) and the network owners. The suppliers/contractors invited to install their product into the 1:1 scale evaluation rigs submit a tender and are paid to do so, such that there is no financial or 'in kind' contribution from them – to ensure the independence of the evaluation.

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

Projects have to address genuine needs of Water Companies and having to make a financial contribution is the best way to demonstrate that.

10% represents a combined contribution of £4m p.a. averaging ~£235k per company. It is larger than the contributions UK & Irish companies currently collectively contribute each year to their existing mechanism for collaborative research through UKWIR. Therefore, a requirement for a 10% contribution appears to be large enough to focus minds on the actual need for a project to proceed under this innovation initiative.

As explained in my response to the previous Consultation – this model is successfully used in Germany where the Ministry of the Environment on North-Rhine Westphalia provides up to 80% funding on research proposed by Sewer Network Owners to improve the prevention of pollution to groundwater, but only if Sewer Network Owners demonstrate the need for a project by being prepared to invest the balance. If not, the central funding is not provided.

Note: the information provided in the Consultation refers to 10% being a ‘minimum’ contribution, but does not explain the circumstances when companies would/could have to pay above the minimum for a project. This will need to be explained in the detail of the new scheme.

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

The overarching approach as stated will rely heavily on the content of the water companies’ Joint Innovation Strategy (JIS), which has not yet been published. I understand a first draft will be issued at the end of June for consultation. Since many aspects of the Ofwat innovation initiative are dependent on the JIS, it would be useful if Ofwat were to publish its own response to the draft JIS, concerning whether it meets Ofwat’s expectations. This would assist other stakeholders in formulating their comments back to the water companies on the document.

I agree with Ofwat’s overarching approach, pending the opportunity to see the water companies’ JIS.

**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?**

Having proportionate arrangements within a scheme depending on project scale, would appear to be sensible, as long as it did not bias applicants to focus on smaller projects because the effort to submit larger projects was perceived to be too onerous. Any arrangement would obviously have to ensure that all the principles of the scheme applied equally regardless of the size of the project. This would be supported by having arrangements for smaller and larger projects in a single scheme document, not as separate arrangements. Proportionate arrangements could be set out alongside each other in the one scheme document.

I believe operating two schemes, as already proposed with the Challenge and Main Competition could dilute the implementation of the scheme and be a distraction for ‘supporting organisation’ appointed by Ofwat; who will be under pressure to get the Challenge scheme running quickly, potentially at the expense of concentrating on the Main Competition, which also needs to start quickly.

**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 this space?**

Agreed.

It can be covered by ensuring that plans for dissemination and implementation are included and funded in the proposal. To do this it will be important to engage with the right staff members from all relevant departments in the participating companies, from the inception to delivery of the outputs, and ensure that ownership of the implementation phase has been allocated to staff of a suitable seniority to be able to see it through.

I understand that implementation is one of the topics that the Companies' are including in their Joint Innovation Strategy, to be published at the end of June for consultation. So, there should be an opportunity for stakeholders to further comment on this issue during the consultation on that document.

I made the following observation on the importance of planning for implementation in my response to the previous consultation, which is also relevant here:

*"To cite an example, I undertook a collaborative study of the risks to the public water supply of contamination from miss-connected rain and grey water systems in buildings. At the end, one of the Project Steering Group members [who had overall responsibility for the issue in his company] provided some extra funding for me to present my findings to his colleagues – half a day at each of two locations, where in total some 50 of his colleagues, drawn from across regulation, operations, developer services, customer services, etc. heard first-hand the findings of the research and could ask their own questions. As he shook my hand at the end, he said words to the effect of: 'Thanks, now I can implement every one of your recommendations as everyone who needs to be involved now understands what we have to do to prevent future miss-connections and risks to the drinking water supply'."*

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

I do not have experience of this, but I would expect that a) lessons from the other innovation funds in other sectors have been examined b) the purpose of the fund and its rules are properly explained to all relevant staff in each water company c) Ofwat, rather than the service provider is responsible for monitoring the ring fencing, as it has more experience and power to address issues.

**Q10: Do you think the proposed innovation challenge approach will help better enable partnerships and collaboration between companies and third-parties, in particular smaller innovators? Are there alternative approaches we should be considering? How can we make sure this approach works in practice?**

I believe that the fundamental requirement is that the projects must address genuine needs that the water companies have. By making clear what these are it will enable partnerships to be formed, in respect the proposed Innovation Challenge. It is also fundamental to the Main Competition.

As, mentioned above, I have reservations about running the Innovation Challenge and Main Competition as separate exercises in the first year, because it could reduce the focus of the

‘supporting organisation’ on delivering the Main Competition and of stakeholders on applying for the Main Competition.

**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 funding to customers?**

Part of the strategy is to encourage companies to be less risk adverse. Unspent funding being returned and penalties for not following the rules of the scheme are justifiable. Adding other reasons why funds might be returned, especially if it involved reimbursement by water companies of money already spent on projects, could make them more risk adverse and reduce engagement in the initiative.

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

Agree

**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 this document?**

Agree. The proposals on ensuring that roll-out is considered from the point of inception of the project reflects my comments on this, above and in my response to the first consultation.

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

Agree on the focus.

On the approach, I have concerns that creating two separate schemes in the first year and uncertainty about whether the Innovation Challenge will continue in subsequent years will cause confusion, dilute the focus and allocation of staff by the ‘supporting organisation’ and other stakeholders by having with two schemes to address, and, in a rush to create the Challenge, risk the proper development of the Main Competition.

**Q15: What is the appropriate split of available funding between the Innovation in Water Challenge, the main competition and enabling activities?**

If the Challenge takes place, it should be relatively small to ensure that minds remain focused on the Main Competition, so 20/80.

**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?**

For the reasons given above, I think it is more feasible to run the Main Competition and Enabling Activities that will support it in the first year, than all three. It is most important that available time and resources focus on getting the Main Competition and its supporting activities right.

Under the proposed timings the ‘supporting organisation’, and other stakeholders would require extra staff to run the Challenge, whilst at the same time needing staff to develop the Main Competition.

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

**Recovering costs** – Agree

**Application process** – Agree

**Assessment Process** – Agree

**Monitoring** – Agree in principle, but as this is linked to the Water Companies' Joint Innovation Strategy, which is not yet published. So it is not yet clear exactly how this would work.

**Evaluation** – Agree

**End**