

August 2020

# **Innovation funding and competition: decision on design and implementation**

## About this document

This document sets out our decision on the design and implementation of the innovation competition fund which we [consulted](#) on from May-June 2020. It also provides an update on the one-stop-shop and joint sector innovation strategy.

## Contents

Executive summary	3
1. Background	8
2. Our decision – Outstanding policy issues	11
3. Our decision – Design and implementation of the innovation competition	25
4. Complementary activities	33
5. Next steps	35
Appendix 1 – Indicative timings of the competition	36
Appendix 2 – Summary of consultation responses	37

## Executive summary

Our strategy '[Time to Act, Together](#)' highlighted the role of innovation in meeting many of the challenges the sector faces. Innovation is vital to achieving affordable solutions to long-term challenges, as well as efficient delivery of companies' existing 2020-25 business plans.

In July 2019 we consulted on a set of proposals designed to drive transformational innovation in the water sector. In December 2019, we outlined our decision to make up to £200 million of customer funding available for the period 2020-25, and to hold a collectively-funded innovation competition at least once a year.

In May 2020 we [consulted](#) on the design and implementation of the innovation competition and sought views on outstanding policy issues. This document sets out our decisions on those issues. It also provides an update on the one-stop-shop and joint sector innovation strategy.

We recognise that alongside the innovation fund, companies will be considering what investments they can bring forward as part of the Government's Green Recovery. The innovation competition complements this initiative, allocating up to £200 million of investment to identify, pilot and roll-out new transformational innovation opportunities beyond the Green Recovery's scope.<sup>1</sup>

We received over 50 responses to the consultation from stakeholders across and beyond the sector. We have carefully considered the views within these responses including alternatives to some of the proposals we presented in our consultation and have made changes to our original position where stakeholder feedback pointed strongly to an alternative approach. The tables below summarise our final decisions on the policy areas and on the design and implementation of the innovation competition fund, which we presented in the consultation. We may amend these decisions following a review of the pilot period (January 2021-March 2022).

---

<sup>1</sup> The innovation fund can be directly accessed by the 17 licenced water and wastewater companies and new entrant water and wastewater companies (NAVs), which we refer to together as 'water companies' in this document. Third parties (those who do not have direct access) can access the funding indirectly through collaborative bids with these water companies.

<b>Policy issues</b>	
<b>Section 2</b>	<b>Summary of decisions</b>
Intellectual Property Rights (IPR) and royalties	<ul style="list-style-type: none"> <li>• Background and foreground IPR will be differentiated but we will introduce flexibility in the application process to accommodate requests for alternative IPR arrangements.</li> <li>• Foreground IPR will be made available royalty free to the water companies in England and Wales by all project participants (water companies, business retailers and other third parties<sup>2</sup>).</li> <li>• Foreground IPR royalties earned by water companies and water retailers in other sectors in England and Wales will be shared with water company customers (in proportion to the funds that customers have contributed to the project). This includes where there are joint bids.</li> <li>• All foreground IPR royalties earned by other third parties in other sectors in England and Wales, do not need to be shared with water company customers.</li> <li>• All project participants may retain foreground IPR royalties earned in any sector outside England and Wales.</li> </ul>
Open data and information	<ul style="list-style-type: none"> <li>• Project data and information generated through the innovation competition should be open by default (i.e. freely available for everyone to access, use and share). The exception to this would be sensitive data, which would include personal data or data with security implications.</li> </ul>
Risk sharing	<ul style="list-style-type: none"> <li>• We have set a 10% minimum financial contribution towards individual innovation competition bids. The 10% minimum contribution is an aggregated contribution and may be shared unequally between participants in a joint bid.</li> <li>• This financial contribution shall come from project participants' borrowing or profits, not through charges to customers.</li> <li>• Water companies will have the flexibility to consider alternative arrangements to achieve the total 10% minimum financial contribution e.g. through commercial partnerships or by bringing funding from other sources.</li> </ul>
Types of projects funded	<ul style="list-style-type: none"> <li>• We will take a flexible approach towards the type and size of projects funded through the innovation fund. We will keep our approach under review.</li> <li>• Proposals should be just as much about the roll-out of innovations at scale as the early incubation of new ideas and solutions.</li> <li>• We intend to have one application process that will be designed to be transparent, proportionate and scalable.</li> </ul>
Protecting the innovation funding	<ul style="list-style-type: none"> <li>• The transfer of funds between water companies will be managed by a settlement process.</li> <li>• Fund transfers will occur in the beginning of the quarter following successful bid announcements.</li> </ul>

<sup>2</sup> Other third parties include those who are not water companies or water business retailers.

<b>Policy issues</b>	
<b>Section 2</b>	<b>Summary of decisions</b>
	<ul style="list-style-type: none"> <li>The 17 water companies<sup>3</sup> will manage revenue collected for the innovation fund, and funds awarded to successful bids, within their own accounting systems. Water companies will not be required to have a separate bank account, however to ensure transparency and appropriate governance we propose that additional disclosures should be required for innovation funding in companies' annual performance reports (APRs).</li> </ul>
Protecting customers' money	<ul style="list-style-type: none"> <li>We will ensure that any unused funds collected by the 17 water companies during the 2020-25 regulatory period are returned to customers at the end of the period through the regulatory reconciliation mechanisms. They will not be returned in-period.</li> <li>We have the option to roll over funds into the next regulatory period at a later date if projects span regulatory periods and / or if we decide to continue with the fund beyond 2024-25.</li> <li>A swift settlement process following the announcement of successful bidders will remove the risk of pooled funds lying dormant.</li> <li>Companies will be invited to introduce gated funding for large projects and those spanning regulatory periods, to manage the risk of large amounts being distributed but not spent within the period.</li> </ul>
Interactions with the price review	<ul style="list-style-type: none"> <li>We are not considering derogations from PR19 Outcome Delivery Incentives (ODIs).<sup>4</sup></li> <li>The 17 water companies should openly consider interactions with ODIs as part of their overall assessment of risks and opportunities in the funding application for the competition.</li> <li>We will screen projects to avoid duplicative funding, e.g. for PR19 'business as usual' work, and for any work submitted as a part of PR19 and PR24 which has received funding from the competition.</li> </ul>

<sup>3</sup> The 17 licensed water and waste water companies in England and Wales, which we refer to throughout this document as 'the 17 water companies'.

<sup>4</sup> Outcome delivery incentives (ODIs) are the financial or reputational consequences for water and wastewater companies of outperformance or underperformance against each of its commitments to their customers and stakeholders.

<b>Competition design and implementation</b>	
<b>Section 3</b>	<b>Summary of decisions</b>
<p>Pilot period (innovation in water challenge, main competition and enabling activities)</p> <p>Scope, Format, Timing and frequency</p>	<ul style="list-style-type: none"> <li>We will stagger the opening of the innovation competitions. We expect the innovation in water challenge to open in quarter 4 2020-21 and the main competition to open in quarter 1 2021-22.</li> <li>Around £2m of funding will be made available for the innovation in water challenge and around £40m will be made available for each round of the main competition.</li> <li>We will look to open a second round of the main competition and the innovation in water challenge before the end of 2021-22.</li> <li>The main competition is open to proposals that help to facilitate innovation e.g. data sharing capabilities and a Centre of Excellence.<sup>5</sup></li> </ul>
Evaluation	<ul style="list-style-type: none"> <li>We will review the performance of the competition over the first 18 months before deciding on the profile of subsequent rounds of funding.</li> </ul>
<p>Updated principles</p> <p>Strategic themes</p>	<ul style="list-style-type: none"> <li>We have amended the innovation competition principles 3 and 4 for greater clarity.</li> <li>We have amended principle 5 for clarity following our decision on risk sharing.</li> <li>All of the other principles remain unchanged.</li> <li>We have amended key strategic theme 5 to specifically reference those in vulnerable circumstances.</li> </ul>
Collaboration with third parties	<ul style="list-style-type: none"> <li>The innovation in water challenge should help better enable partnerships and collaboration between water companies and third parties<sup>6</sup>, attracting new market entrants and disruptors who may not normally operate in the water sector.</li> </ul>

As we set out in our May-June 2020 consultation, we are appointing an innovation fund partner to administer the innovation fund. The tender process will run from 18 August-September 2020, and we plan for the partner to start in late autumn 2020. There are some areas of the innovation in water challenge and main competition design which will be finalised in quarter 3 of 2020-21 once the innovation fund partner is in place. These include:

- application process for bids;
- detailed assessment criteria;
- bid assessment process and selection of an advisory panel;
- monitoring of projects; and
- the process and oversight around intra-company settlements for winning bids.

<sup>5</sup> Centre of Excellence: a sector-led approach to coordinate new enabling activities, identified through the joint sector innovation strategy across different and existing players in the sector. This could, in the longer-term, act as a first point of contact for innovators seeking at-scale testing of their solutions.

<sup>6</sup> Third parties are stakeholders who do not have direct access to the innovation fund, including innovators and suppliers.

## Timetable

We understand that these are challenging times for all. The current Covid-19 pandemic reinforces the important role innovation can play in addressing global challenges and improving outcomes for customers and the environment. However, in light of the responses we received highlighting the ambitious timetable we presented in the consultation document, and the impact that Covid-19 has had on resources across the sector, we have amended our timetable for implementation of the innovation fund. We set out the rationale behind the new timetable in Section 3.

Aug – Oct 2020	Nov – Dec 2020	Jan 2021	March 2021	Jan – March 2021	April 2021
Tender process and appointment of innovation fund partner	Finalise design and implementation of innovation in water challenge	Innovation in water challenge opens	Innovation in water challenge closes	Finalise design and implementation of main competition.  Design and trial one-stop shop	Main competition – round 1 opens

## How to get involved

We will continue to work with the sector through the autumn as we finalise the application and assessment process.

If you would like to be kept informed about our work then you can subscribe to updates using our [sign up form](#).<sup>7</sup>

---

<sup>7</sup> Sign up form can be accessed here: <http://eepurl.com/haA4jr>



## 1. Background

### Our overarching aim

Innovation is important in the efficient delivery of water companies' existing 2020-25 business plans; but it is also vital to achieving affordable solutions to long-term challenges. We are working with the sector to ensure that innovation is complementary rather than duplicative, learning is shared, and technology that is proven to work can be easily adopted across the water sector.

In December 2019, we identified three key challenges to innovation in the water sector.

1. The need for more effective joint working and shift in company culture.
2. A perception that the current regulatory framework does not sufficiently encourage innovation, particularly in the context of the clear public health and environmental obligations companies must comply with.
3. Global strategic challenges like the climate crisis and population growth means it has become even more urgent for water companies to innovate in order to continue delivering safe, reliable and affordable water supplies for all.

We also outlined our decision to make up to £200m of funding available for the period 2020-25 (via customer bills), and to hold a collectively funded innovation competition at least once a year.

The innovation fund is designed to complement our existing approach to innovation in the 2019 price review (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 delivery. We also set stretching outcome performance commitments and a cost efficiency challenge benchmarked to the performance of the leading companies in the sector.

We are putting safeguards in place to ensure the innovation fund delivers value for customers 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.

### The innovation competition

The introduction of innovation funding and an innovation competition will act as a catalyst to help address the key challenges identified above by targeting

transformative innovation, and reinforcing collaboration and partnership across the sector and beyond. The competition will include two strands:

- the innovation in water challenge; and
- the main competition, including projects to facilitate innovation (referred to as 'enabling activities' in our previous publications).

More details on these two strands can be found in section 3.

The innovation competition can be directly accessed by the water companies.<sup>8</sup> Third parties, including water and wastewater business retailers will be able to access the competition through collaborative bids with the water companies. We will keep the eligibility under review, including by considering over the next few months the benefits of business retailers to accessing the fund independently.

### **Appointing an innovation fund partner**

We intend to procure an innovation fund partner<sup>9</sup> to support us with the design, implementation and ongoing monitoring and administration of the innovation competition. We will tender in August 2020 and aim to announce the successful bidder in October 2020. This will be an open and transparent process. We expect the innovation fund partner to have experience of administering innovation funds and competitions and have a strong track record of developing and stimulating innovation in other sectors.

### **Establishing an expert panel**

The innovation fund partner will support us establishing an expert panel, who will undertake a technical scrutiny of innovation fund proposals and make recommendations to Ofwat on which projects should be considered for funding. We will work with the innovation fund partner to ensure appropriate breadth of expertise, optimum size and the governance arrangements.

---

<sup>8</sup> The innovation fund can be directly accessed by the 17 licenced water and wastewater companies, and new entrant water and wastewater companies in England and Wales.

<sup>9</sup> The innovation fund partner will be paid from the £200m innovation fund.

## Complementary activities

We will not drive innovation through the innovation fund alone. We recognise the need for the sector to collaborate to identify and meet future challenges, and our role in ensuring that regulation is an enabler to innovation. We are continuing to work with the sector and other regulators in the development of a number of complementary activities, and more details are provided in Section 4.

- **Joint sector innovation strategy:**

In our December 2019 decision document '[Time to Act, now: driving transformational innovation in the sector](#)', we invited the 17 water companies to develop a joint sector innovation strategy. This strategy is for innovation in the sector as a whole, across all funding sources, although it will provide context and key themes to guide the innovation fund. The [first draft](#) was published on 9 July and we expect the final strategy will be published in September 2020 ahead of the launch of the competition.

- **One-stop-shop:**

We intend to establish a one-stop-shop which should provide water companies and innovators easier access to non-binding regulatory advice on current rules and regulations, as they explore early stage innovation opportunities. It will also aim to work with other regulators in the water and wastewater sector to explore regulatory barriers to innovation across the sector. It will inform the development of future regulatory frameworks to continue to encourage and enable innovation.

## Associated documents

When reading this document, you may find the following useful for background info/useful for reference.

- [Ofwat Decision on driving transformational innovation in the water sector](#) (December 2019)
- [Ofwat Draft PR19 reconciliation models](#) (March 2020)
- [Ofwat Consultation on the PR19 reconciliation rulebook](#) (closed 29 April 2020)
- [Ofwat Innovation funding and competition: Further consultation on design and implementation](#) (closed 24 June 2020)
- [Consultation on regulatory reporting for the 2020-21 reporting year](#) (closes 24 August 2020)

Upcoming publications in autumn 2020

- Final PR19 Reconciliation models
- PR19 Reconciliation Rulebook
- Revised regulatory accounting guidelines (RAGs) for the 2020-21 reporting year

## 2. Our decision – Outstanding policy issues

### Our consultation proposals

In May-June 2020, we consulted on the design and implementation of the innovation competition. This included policy areas such as Intellectual Property Rights (IPR), allocation of risk between companies and customers, the focus on roll-out of projects and the timing of each strand of the innovation fund. We also proposed minor changes to the principles proposed in our [December 2019 publication](#) to reflect the evolution of our policy.

We summarise below our key decisions and how we reached these.

### Our decisions

#### Intellectual property rights and royalties

##### Key decisions on our IPR and royalties proposals

- Background and foreground IPR will be differentiated but we will introduce flexibility in the application process to accommodate requests for alternative IPR arrangements.
- Foreground IPR will be made available royalty free to the water companies in England and Wales by all project participants (water companies, business retailers and other third parties<sup>10</sup>).
- Foreground IPR royalties earned by water companies and water retailers in other sectors in England and Wales will be shared with water company customers (in proportion to the funds that customers have contributed to the project). This includes where there are joint bids.
- Foreground IPR royalties earned by other third parties in other sectors in England and Wales, do not need to be shared with water company customers.
- Project participants may retain royalties earned outside England and Wales.

#### Background and foreground IPR

In our May-June 2020 consultation, we differentiated between background and foreground IPR and have clarified our position below.

**Background IPR:** this is pre-existing IPR, which exists prior to the submission of any bids to the innovation competition. For example this could involve a product or

---

<sup>10</sup> Other third parties i.e. those who are not water companies or business retailers.

solution developed prior to the competition and without any competition funding. Our view is that each participant should retain all rights in and to its background IPR, including where a bid involves more than one participant. However, an appropriate form of licence should be granted to all participants in any project, which is the subject of a bid, for the sole purpose of the project, in order to enable it to go ahead.

**Foreground IPR:** this is new intellectual property that is created through a project funded by the innovation competition. To ensure all customers benefit from the innovation competition, which is collectively-funded, foreground IPR must be made available royalty-free and in perpetuity to all 17 water and wastewater companies and new entrant water and wastewater companies. With regards to the ownership of foreground IPR, where a project funded through the innovation competition involves more than one participant, then any jointly created IPR should be shared proportionately as agreed by the project participants, however where any IPR is created independently by one of the project participants then it should be owned by the participant who created it, rather than by all the project participants. The owner is then able to decide if they want to commercialise it outside of the water sector in England and Wales or internationally. Where a participant's background IPR is required for the purposes of using foreground IPR, we expect a limited appropriate form of licence to be granted by the participant.

There was general agreement in the consultation responses on the differentiation between background and foreground IPR, and the treatment of background IPR. However, concerns were raised about the treatment of foreground IPR and this being made available royalty-free to all water companies. Some responses highlighted that this may dis-incentivise innovators and third parties from collaborating on projects funded by the innovation fund by removing the potential for future financial gains from intellectual property.

We also received responses highlighting the funding source for the competition being water and wastewater customers and that all customers should benefit from potential future financial gains made through intellectual property.

We have decided to retain the default position on the treatment of background and foreground IPR as a starting point. However, we recognise the sensitivities around IPR for innovators. Therefore we will ensure flexibility in the application process to accommodate requests for alternative IPR arrangements on a case-by-case basis. Where submissions to the innovation fund propose alternative IPR arrangements, the bid must clearly show how the project will benefit all customers of water companies and any alternative arrangements do not result in additional costs to customers.

## Royalties

Some concerns were raised by stakeholders about the lack of incentives for third parties to participate in the innovation competition if IPR is given royalty-free. We have considered the arrangements in place in similar contexts, for example Ofgem's Network Innovation Competition (NIC)<sup>11</sup>, where third parties still actively participate even though IPR is royalty-free for the sector.

Many respondents agreed that foreground IPR will be royalty free for the water sector in England and Wales in the proportion to the total project funding drawn from the innovation fund. We have therefore decided to retain this position and the same will apply to water retailers. This includes where there are any joint bids.

However, to encourage participation by other third parties, royalties earned by other third parties in other sectors in England and Wales, do not need to be shared with water company customers. In addition, all project participants may retain royalties earned outside England and Wales.

Some respondents highlighted that the agreement of contractual terms, including in relation to IPR and royalties, may be a complex and time consuming process. A few suggestions around this included for example, having further guidance available or that access to any IPR should be discussed prior to the parties entering into a contract to ensure complete transparency.

Whilst recognising these concerns and noting the direct and indirect access requirements we are placing on those seeking to use the innovation fund, we expect bid partners to have settled any contractual issues between themselves before submitting a bid.

---

<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/version-30-network-innovation-competition-governance-documents>

## Open data and information sharing

### Key decisions on our open data and knowledge sharing proposals

- Project data and information generated through the innovation competition will be open by default (i.e. freely available for everyone to access, use and share). The exception to this would be sensitive data, which in this context would include personal data or data with security implications.

### Open data by default

In our May-June 2020 consultation, we proposed that data and information generated through the innovation fund should be open by default, (with the exception of sensitive data.)

Our proposals on having open data and information by default (with the exception of sensitive data) were broadly welcomed by stakeholders.

Whilst we have decided that all funded project data and information should be open by default, this does not mean everything needs to be open. Rather, this is a starting point whereby data and information that is not to be open should be the exception rather than the rule.

### Accessibility of open data, knowledge and learning

Several respondents noted a need for a clear strategy for sharing data across the sector, and that successful data sharing is underpinned by good governance to ensure the appropriate data is made available in an accessible form. We consider that the processes to facilitate data sharing should be guided by the joint sector innovation strategy. This will encourage collaboration across the sector in managing open data, ensuring it is readily available and accessible. We also believe that this principle should be applied more generally, beyond just data arising from the innovation competition projects.

Consultation respondents also indicated the value of knowledge and learning being shared, in addition to data and information itself, to accelerate the pace of innovation and to enable greater transparency and accountability across the water sector. We expect project participants to make accessible the information and associated learning and knowledge from innovation competition projects. We agree that there is significant value in making knowledge sharing and learning collaborative, which can also help to drive cultural change. We would want to see this achieved in different

ways, including conferences and other forms of engagement. Any bid for the Centre of Excellence should show how it would play a key role in the dissemination of knowledge and good practice.

## Risk sharing

### Key decisions on our risk sharing proposals

- We have set a 10% minimum financial contribution towards individual innovation competition bids. The 10% minimum contribution is an aggregated contribution and may be shared unequally between participants in a joint bid.
- This financial contribution shall come from project participants' borrowing or profits, not through charges to customers.
- Water companies will have the flexibility to consider alternative arrangements to achieve the total 10% minimum financial contribution e.g. through commercial partnerships or by bringing funding from other sources.

### Minimum 10% financial contributions

In our December 2019 decision document, we said that we will consider introducing a requirement for water companies to contribute financially to innovation competition projects, as customers should not bear all the risk of projects funded through the competition. In our May-June 2020 consultation, we said that we wanted to make sure projects put forward in the innovation competition are of high quality and have the buy-in of the water companies and their shareholders. We therefore proposed a minimum company contribution of 10% of individual innovation competition bids. For example 90% of a winning bid would be drawn from the £200m innovation fund (that would include an element from a company's customers by virtue of that company contributing to the overall fund), while 10% of the winning bid would be directly provided by the company. We also proposed flexible arrangements on how the 10% funding was sought.

The majority of consultation responses, including from water companies and third parties, were broadly supportive of our proposals around risk sharing. A few water companies stated that financial contributions would put additional pressure on their totex<sup>12</sup> and that customers should not have to pay twice, which is not the case as we expect water company contribution to come from water company profits. We also had a suggestion from a third party that the minimum contribution should be around

---

<sup>12</sup> As part of PR19 we set a total expenditure (totex) allowance for companies for the period 2020-25. Our totex allowance is a material component of customers' bills now and in the future.



20%, as 10% seems too low to create a genuine alignment of incentives between the water companies and the innovation competition.

Whilst the majority of water companies supported making a contribution, they also proposed that their contributions could be either financial or non-financial. For example, non-financial contributions could include access to facilities, technology, resources and IPR related to technologies.

We have decided to retain the proposed total 10% minimum financial contribution towards the total costs for each project to incentivise high quality bids and ensure good project management. We note that this is in line with the company contribution required under Ofgem's NIC. However as explained below, we are flexible in how this funding is sourced and how the total 10% is shared between participants, rather than each water company needing to contribute 10%. The £200m innovation fund is funded by customers but may well unlock future opportunities and efficiencies for both customers and companies. We consider that both opportunities and risks should be shared between companies and customers. Therefore projects should have company and shareholder financial support in addition to the customer contributions from the innovation fund.

We recognise that whilst company structures differ<sup>13</sup>, all companies are able to reinvest profits irrespective of their ownership structure which provides a means of financial contribution outside of the innovation fund itself.

Whilst we expect the minimum contribution to be financial, we welcome and are flexible on any additional contributions that water companies or other bid participants may wish to make beyond the 10% financial contribution. These may be further financial and/or non-financial contributions. Any additional contributions will be considered favourably during the assessment of bids.

We are retaining flexibility on this policy to enable other factors to be taken into account, such as the water company size, the nature of the project and the likely risk involved e.g. based on technology readiness levels (TRLs).

### **Alternative arrangements to water company contributions**

In our consultation we welcomed views on alternative arrangements to achieve the total 10% minimum contribution e.g. through commercial partnerships or by bringing funding from other sources. The majority of respondents supported this proposal.

---

<sup>13</sup> Dŵr Cymru is [a company limited by guarantee](#) and as such has no shareholders.

We recognise that a water company many wish to share the 10% financial contribution with third parties<sup>14</sup>, or leverage funding from other sources to make up the total 10%. It is for the project participants to consider how they would fund the contribution required. It will be optional, rather than essential, for third parties to contribute, as we recognise that investment may already have been made in exploring feasibility or prototyping prior to a bid being submitted. By making third party contributions optional we can ensure that there are not unnecessary barriers for third parties to get involved, whilst providing flexibility on how arrangements can be made.

## Types of projects funded

### Key decisions on our types of projects funded proposals

- We will take a flexible approach towards the type and size of projects funded through the innovation fund. We will keep our approach under review.
- Proposals should be just as much about the roll-out of innovations at scale as the early incubation of new ideas and solutions.
- We intend to have one application process that will be designed to be transparent, proportionate and scalable.

## Our overall approach and roll-out ‘at the heart’ of the competition

In our May-June 2020 consultation, we said that we would retain flexibility on the type of projects funded to ensure we do not create an unintended bias towards certain types of projects. A majority of respondents agreed that the innovation fund should be flexible and allow proposals to cover projects of different size and type. We will keep our approach under review throughout the course of the innovation competition and adapt where necessary, taking learning from the pilot period. A number of respondents also recognised the importance of the competition aligning to the joint sector innovation strategy. The innovation competition will align to the strategic themes as we set out in section 3. However, we agree that the innovation competition should take in to consideration the joint sector innovation strategy.

Effective implementation and roll-out at scale is key to ensuring that customers and the environment benefit from the adoption of transformational innovation. There can also be a lot of innovation required in scaling up and the adoption of new technologies. Overall respondents agreed and strongly supported the innovation

---

<sup>14</sup> Third parties are stakeholders who do not have direct access to the innovation fund, including innovators and suppliers.

competition placing emphasis on roll-out, however we recognise that there is also value in funding projects that are not at roll-out stage. Indeed, a number of respondents highlighted that projects in the earlier stages of development can lead to the most disruptive and innovative outcomes which is why we are keen that these are also considered as part of the innovation competition.

We maintain our position that we expect companies to set out, where possible, their plans for rolling-out innovations funded through the competition fund. Once the main competition is up and running, we will consider whether or not additional steps are required to encourage wider adoption of innovative solutions. As we set out in section 3, in our discussion of the competition principles, principle 3 acknowledges our position that the innovation fund will be open to projects that can be rolled-out at scale as well as those that are in earlier stages of development.

### **Small-scale projects**

In our May-June 2020 consultation, we asked stakeholders whether there should be a separate process for small-scale projects and how we might define small-scale projects for the purpose of the innovation competition. There was a clear emphasis from respondents that the application process must be transparent and proportionate to those applying and that a separate process would incentivise smaller projects to apply, particularly those projects that are smaller in value and hold lower risk. However, there were some respondents who disagreed and believed that a separate process would increase the complexity and discourage larger projects.

We received a number of responses in relation to how we should define a small-scale project with a range of options on how we might categorise a small project: value of project; length of project; technology readiness level<sup>15</sup>; and by the nature of projects (e.g. process, technology). Overall there was little consensus among respondents on what the right approach should be.

We have decided that we will run one process for all applicants to the main competition and commit to working with the innovation fund partner to develop a process that enables a transparent and proportionate approach, irrespective of the scale of project. We are mindful that a separate process for small-scale projects could counteract our aim of having a transparent, proportionate and accessible application process for all projects.

We are also committing to run an innovation in water challenge, with the first round launching in quarter 4 this year (2021-22). This will enable third parties to pitch ideas

---

<sup>15</sup> Technology readiness levels are a type of measurement system used to assess the maturity level of a particular technology.

directly to the water companies. The focus of the innovation in water challenge will be on smaller projects with a guide total cost of no more than £250,000. More details can be found in section 3.

## Protecting the innovation funding

### Key decisions on protecting the innovation funding

- The transfer of funds between water companies will be managed by a settlement process.
- Fund transfers will occur in the beginning of the quarter following successful bid announcements.
- The 17 water companies will manage revenue collected for the innovation fund, and funds awarded to successful bids, within their own accounting systems. Water companies will not be required to have a separate bank account, however to ensure transparency and appropriate governance we propose that additional disclosures should be required for innovation funding in companies' annual performance reports (APRs).

In our May-June 2020 consultation, we made our expectations clear that the innovation fund will be ring-fenced and administered in a way that it cannot be used for other purposes. Effective ring-fencing will help ensure that customers' interests are protected.

Respondents agreed that it is important to ensure that customers' money is being managed in a transparent way and that the right level of oversight is in place. They felt that having an independent body to administer the process is the most appropriate way to manage the funds. A few respondents raised how the funds will be handled in the joint pot and whether there will be any interest gained from this.

We agree that the process by which bids are assessed and awarded needs to be transparent and enjoy the support of the sector, and the need for appropriate safeguards to the distribution of funds. In this, we distinguish between the process of evaluating and awarding bids, and the process for distributing the funds to successful bidders.

To avoid over collection by requiring company contributions to be collected 'up front' on the estimated value of competition round awards and to ensure efficiency in the distribution of funds, we consider that a periodic settlement of the total value of successful bids is the most effective way of transferring funds. Allowing money to move from the 17 water companies to successful bidders without having to be stored

and managed centrally reduces risk and avoids associated costs of managing the funds centrally.

At the end of each competition, Ofwat (with its innovation fund partner) will calculate and publish the value of the individual winning bids and the net transfers that should occur.

Through the innovation fund partner, we will monitor the funding distribution, and will make transparent any outstanding monies owed. We will keep this mechanism under close review.

In time, and following the evaluation after the pilot period, it may be appropriate for the sector to procure and establish its own improved approach to the settlement system. We remain committed to working with the sector to establish an effective solution for the fund's 'go live' and beyond.

### **Timing of payments**

There were a number of different views on the timing of payments from companies. For example, a number of respondents considered that the funds need to be available at the point a successful bid is chosen. Another point raised by respondents was around the staggered nature of customer bill payments, and how these may affect the ability to pay in to the fund at a specific time.

We have decided that fund transfers will occur in the beginning of the quarter following successful bid announcements. This will require winning bids to be ready to receive monies, (and therefore have finalised contract negotiations between multiple parties) as soon as winners are announced. We recognise that for some projects, for example where stage gated payments are appropriate, there will be additional payments required across the financial year.

### **Ring-fencing**

A few respondents disagreed with our proposal to require awarded funds to be held by the successful bidder in a separate bank account. They consider this process is too burdensome and not the most appropriate way to ring-fence funds. Concerns were also raised around some securitised companies which may have limits on the number of bank accounts they can operate under their financial covenants. Instead they consider that financial controls on the funds can be achieved and demonstrated through companies' existing management accounting processes.

In order to minimise the burden of managing the innovation fund on companies, particularly the smaller companies, we have amended our proposed requirement for a separate bank account. Instead, we will allow companies to manage revenue collected for the innovation fund within their own accounting systems. This will also apply to funds awarded to successful bidders. To ensure transparency and to allow for appropriate governance we propose that additional disclosures should be required for innovation funding in companies' APRs. We do this by proposing changes to the revised regulatory accounting guidelines (RAGs) which companies follow to ensure that they report performance according to their licence requirements. We have already proposed an additional table (9A) in our recent [consultation](#) and we will additionally require commentary so that companies identify what part of their cash balances are in respect of innovation funding. This part of the APR is subject to an external audit which will provide an additional level of assurance around the management of funds. More detail on these requirements will be included in the final RAGs which are to be published in late 2020.

In our consultation we proposed that funding would only be transferred to successful bidders after they have agreed to all the funding conditions. These could include, for example, clear project monitoring activities.

There is no disagreement within the consultation responses around the requirement for successful bidders to agree to the funding conditions before the funds are transferred and therefore we are retaining this position. One respondent noted the impact that the pandemic has had on household affordability, and questioned whether it remained appropriate for customers to fund the innovation fund. We have considered the implications of Covid-19 carefully and believe that the competition is key to unlocking better long-term outcomes for customers and value for money. Recognising the impact the pandemic is continuing to have on household incomes, we have included within our key strategic themes reference to customers who are vulnerable (see Section 3).

## Protecting customers' money

### Key decisions on our proposals on protecting customers' money

- We will ensure that any unused funds collected by the 17 water companies during the 2020-25 regulatory period are returned to customers at the end of the period through the regulatory reconciliation mechanisms. They will not be returned in-period.
- We have the option to roll over funds into the next regulatory period at a later date if projects span regulatory periods and / or if we decide to continue with the fund beyond 2024-25.
- A swift settlement process following the announcement of successful bidders will remove the risk of pooled funds lying dormant.
- Companies will be invited to introduce gated funding for large projects and those spanning regulatory periods, to manage the risk of large amounts being distributed but not spent within the period.

In our consultation document we said that we expect all unused funds to be returned to customers, taking into account that some projects, especially those funded in the later years of the innovation fund may require funding beyond 2025. We also noted that we may decide to make adjustments where we have considered that funds have been misspent and/or projects have not complied with funding conditions without reasonable justification.

We are retaining this decision and any remaining funds held by companies but unallocated to projects will be given back to customers as part of the end of period (2020-2025) reconciliation.

Our proposal for companies to manage the settlement process and allocation of funds through direct transfers or, for example, a settlement body will remove the risk of unspent funds being held within a central pot (see section above).

Any unused funding collected by companies through charges, but not allocated to projects, will be rolled over to future competition rounds. We will confirm our approach after the pilot period and the remainder of the regulatory period in light of lessons learnt from the pilot period. We may therefore choose to re-configure innovation activities for the following years.

We recognise that there may also be unused project money. This may be a result of successful bidders not spending the entirety of money within the period (e.g. for projects spanning the 2020-25 / 2025-30 regulatory periods), or if through project

monitoring we have evidence of funds being misspent and/or projects have not complied with funding conditions without reasonable justification.

To minimise the risk of unused project funds we are inviting companies to propose a 'gated' process of allocating funds to large, high risk projects and those spanning regulatory periods, as part of their application. Where project funds are unused or misspent at the end of the period we reserve the right to claw these back and return to customers as part of the end of period reconciliation.

Where projects span the 2020-2025 regulatory period we are able to allow for funding to flow from one regulatory period into the next period. We will ensure the innovation funding that has been given to companies is treated and managed separately to totex both in this current regulatory period and during the next which will allow for funds to flow into the next regulatory period where necessary (2025-2030).

We are mindful that these decisions may be influenced by any future decision on the role of the fund beyond the current timeline (2025) and will therefore be kept under review.

## **Interactions with the price review**

### **Key decisions on our proposals on interaction with the price review process**

- We are not considering derogations from PR19 Outcome Delivery Incentives (ODIs).
- The 17 water companies should openly consider interactions with ODIs as part of their overall assessment of risks and opportunities in the funding application for the competition.
- We will screen projects to avoid duplicative funding, e.g. for PR19 'business as usual' work, and for any work submitted as a part of PR19 and PR24 which has received funding from the competition.

## **Interactions with outcome delivery incentives**

In our May-June 2020 consultation, we considered the potential impacts of innovation projects on ODIs to be relatively small and that water company participation in the innovation competition should not be risk free for companies.



We have decided to retain this position. While it is understandable that companies may have a degree of caution around adherence to their ODIs given the risk based nature of innovation, we do not feel that upfront derogations to their ODIs, as suggested in some consultation responses from water companies, would be appropriate – especially so soon after the PR19 final determinations. We note that where there is potential risk to ODIs there is also potential reward and therefore consider it good practice for companies to consider the potential impact on ODIs as part of their overall assessment of the risks and opportunities of a project through the application process. We will use the application process to screen projects to avoid duplicative funding between PR19 and the innovation fund.

### **3. Our decision – Design and implementation of the innovation competition**

We have acknowledged that the pilot period is critical to ensuring we set up the innovation competition and framework for funding effectively, in a way that achieves our wider aim of driving collaboration to address key strategic challenges. It will act as an opportunity to test our processes and further refine our approach for the remainder of the innovation competition. With that in mind we consulted on the setup of the competition, including the benefits of introducing different strands of the competition (the innovation in water challenge, main competition and enabling activities), how they should be sequenced and what the breakdown of funds should be across the different strands of the competition.

#### **Key decisions on our proposals on the design and implementation of the competition**

- The innovation in water challenge should help better enable partnerships and collaboration between companies and third parties, attracting new market entrants and disruptors who may not normally operate in the water sector.
- We will stagger the opening of the innovation competitions. We expect the innovation in water challenge to open in quarter 4 2020-21 and the main competition to open in quarter 1 2021-22.
- We consider that enabling activities can be accommodated through the main competition.
- Around £2m of funding will be made available for the innovation in water challenge and around £40m will be made available for each round of the main competition. The main competition is open to proposals that enable innovation.
- We will look to open a second round of the main competition and the innovation in water challenge before the end of 2021-22.
- We will review the performance of the competition over the first 18 months before deciding on the profile of subsequent rounds of funding.

#### **Innovation in water challenge, main competition and enabling activities**

In our May-June 2020 consultation, we considered ways in which we can place partnerships and collaborations at the heart of the innovation funding and competition. We proposed to trial an innovation in water challenge in the first year of the innovation fund. This would enable third parties to pitch ideas directly to the water companies, who then act as co-sponsors of the project in order to access the innovation fund. Using this approach the water companies would need to identify specific key challenges as part of their joint sector innovation strategy (aligned to the

key strategic themes for the innovation competition - see the 'Key strategic themes' section), and invite proposals for solutions to these challenges. The water companies would need to identify the proposals they wish to sponsor for participation in the competition.

The main competition creates the opportunity to put forward bids for larger, strategic projects to be directly funded through the competition. We expect to see bids coming forward involving partnerships and collaborations between companies, as well as with other stakeholders in the water sector and beyond. In addition, sector-wide enabling activities could be partly funded through the competition if they can facilitate innovation and act as the building blocks toward larger, strategic projects<sup>16</sup>.

In our May-June 2020 consultation, we said we will make up to £40m available during the pilot period, across three different types of activities, namely the innovation in water challenge, enabling activities and the main competition. We invited views on introducing the three strands of the competition in the pilot period and what the appropriate split of funding between the three strands should be.

The majority of respondents felt the timetable was very ambitious, particularly in the context of Covid-19 and the resource they would have available during 2020-21. Many suggested there would be merit in getting the mechanics in place before running the main competition. Respondents suggested that there was a natural sequencing of the competition strands (opening the innovation in water challenge and enabling activities ahead of the main competition) and fund allocation split (with the vast majority reserved for main competition).

Contrary to this, a minority considered that with a suitable innovation fund partner on board in good time, it would be right to get all three strands moving, to build on momentum and enthusiasm. This would ensure the sector can begin to submit bids to access the innovation fund sooner and avoid the risk of there not being sufficient opportunity for the £200m to be spent during the 2020-25 period. The innovation in water challenge was considered by almost all consultation respondents to be a good vehicle for driving partnerships and collaboration between water companies and third party innovators, with many suggesting its success depended upon marketing the opportunity effectively to innovators, including those not already engaged in the water sector.

Having considered all the consultation views we have decided to introduce two strands of the competition – the innovation in water challenge and the main

---

<sup>16</sup> For example, this could include proposals designed to improve the coordination of innovation activities and facilitate roll-out through a Centre of Excellence or proposals looking at implementing open data.

competition, with enabling activities being funded through the main competition. We consider that the enabling activities can be managed through the main competition and facilitate an effective balance between enabling and projects. We will stagger the timing of each strand. Both will draw from the £200m fund.

Activity	Innovation in water challenge	Main competition
Aim	Targeting smaller projects to encourage collaboration and partnerships with third parties within and beyond the sector to facilitate innovation.	Targeting larger strategic projects and enabling activities (e.g. data capabilities).
Focus	Innovation in water challenge enables third-parties to pitch ideas directly to the water companies, and assist their indirect access to the innovation funding. Follows similar models such as the Affordable Credit Challenge, the GovTech Catalyst Fund and the Seafood Innovation Fund.	Enables water companies the opportunity to put forward bids for larger projects to be directly funded through the competition. We expect to see bids coming forward involving partnerships and collaborations between companies, as well as with other stakeholders in the water sector and beyond.
Funding pot	c £2m	c £40m for each round (up to 5 rounds over 4 years), at least annually
Project sizes and focus	c £50k – £250k	Project sizes will vary, but aim to include some large transformational proposals in years 2 and 3. Projects will include those focussed on roll-out of innovations at scale as well as the early incubation of new ideas and solutions.

### Timing of the innovation competition

We expect the innovation in water challenge to open in quarter 4 2020-21, ahead of the main competition. We expect the innovation in water challenge to encourage collaboration between water companies and third party innovators which we hope will set the tone and provide a level of confidence for a wide range of diverse and collaborative bids in the main competition. The first round of the main competition will open in quarter 1 2021-22 and we will look to open a second round of the main competition and innovation in water challenge before the end of 2021-22, as illustrated in Appendix 1. The enabling activities strand will be managed through the main competition.

This sequencing of activities allows us and the successful innovation fund partner time to work with the sector to get the mechanics set up appropriately without losing any momentum. It also factors in potential resource implications Covid-19 may still

be having through the remainder of 2020-21. We will also be able to consider and learn from the innovation in water challenge as we open the main competition.

We have decided that around £2m of funding will be made available for the innovation in water challenge in year one (for small projects with a total cost between c.£50k and £250k) and £40m be made available for each round of the main competition. The total amount available will be confirmed when the innovation in water challenge and main competition open. With support from the sector and the chosen innovation fund partner, we will review the performance of the first 18 months of the competition before deciding on the profile of subsequent rounds of funding.

### **Evaluation**

Initially we will contract with the innovation fund partner for the remainder of 2020-21 and 2021-22. We will include an option to extend the contract following an evaluation of the effectiveness of the innovation fund partner and the performance of the competition which will look at levels of take up and the impact the fund is making across the sector during this initial period. We will also review the overall effectiveness of the competition at the end of the five-year period. We will set out the parameters for a review at a later stage. The evaluations will consider insight from the monitoring of competition projects and feedback from competition participants.

## Competition principles and key strategic themes

### Key decisions on our proposals on the competition principles and key strategic themes (amendments in bold)

- To amend principle 3 to read, “Proposals should be just as much about the roll-out of innovations at scale as the early incubation of new ideas and solutions. **The innovation competition will fund a mix of both these approaches to maximise its impact.** Where appropriate, we expect companies to set out clear plans for rolling-out innovations funded through the competition across their and other companies’ areas.”
- To amend principle 4 to read, “Innovation fostered through the innovation competition must **seek to** provide public value<sup>17</sup> for all customers in England and Wales, although the benefits for some customers may in some cases be indirect (e.g. **solving problems prevalent in certain regional geographies can improve practices throughout the water sector, or** from the sharing of findings across the sector where projects are not successful).”
- To amend principle 5 to read, “Companies will be required to demonstrate their commitment to innovation competition projects and ensure risks are appropriately shared between customers and water companies. **This would include, as a minimum, a total financial contribution of 10% of project bid costs.**
- To keep the remaining principles as they stand.
- To amend key strategic theme 5 as follows (amendment in bold): Exploring the opportunities associated with open data, stimulating innovation and collaboration, for example encouraging new business models and service offerings that benefit customers, **including those in vulnerable circumstances.**

### Amendments to the innovation fund principles

We consulted on eight principles for the innovation fund. The updated principles are set out below.

While consultation responses were broadly supportive of the proposed principles we received feedback that encompassed a variety of suggestions for minor changes and redrafting. We consider that in most instances the principles are far reaching enough to mean that amendments are not required, or the feedback received raised specific issues that have been addressed elsewhere in this decision document.

---

<sup>17</sup> Public value: companies looking to deliver their core services differently where they can deliver greater public value, and in doing so developing and maintaining trust and legitimacy.

However, we received feedback from multiple stakeholders relating to two of the principles which we agree require clarification. This is addressed below.

**Principle 3:** concerns were raised that our proposed revisions placed too much emphasis on roll-out, which could exclude potentially transformative ideas that are at an early stage of development. Whilst we want to encourage roll-out the proposed text was not intended to exclude projects at the early incubation stage and as such we have amended this principle to clarify this.

**Principle 4:** concerns were raised around all innovations having to benefit all customers may limit potential innovation, for example a potential solution to an infrastructure problem only affecting certain regions might not fit within the principles. To address this concern the principle has been updated with a second example, which clarifies that local solutions are welcome, recognising that there can be indirect benefits of innovation.

**Principle 5:** we have provided clarity on this principle following our decision on risk sharing and a minimum total project contribution of 10%.

### **Updated innovation competition principles**

Below are our final principles for the innovation competition.

1. 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.
2. The purpose of the innovation competition is to drive transformational innovation that companies would not otherwise explore or invest in.
3. Proposals should be just as much about the roll-out of innovations at scale as the early incubation of new ideas and solutions. The innovation competition will fund a mix of both these approaches to maximise its impact. Where appropriate, we expect companies to set out clear plans for rolling-out innovations funded through the competition across their and other companies' areas.
4. Innovation fostered through the innovation competition must seek to provide public value for all customers in England and Wales, although the benefits for some customers may in some cases be indirect (e.g. solving problems prevalent in certain

regional geographies can improve practices throughout the water sector, or from the sharing of findings across the sector where projects are not successful).

5. Companies will be required to demonstrate their commitment to innovation competition projects and ensure risks are appropriately shared between customers and water companies. This would include, as a minimum, a total financial contribution of 10% of project bid costs.
6. 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.
7. Companies will need to provide evidence of how they are working together and with others (including other water and wastewater 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.
8. There will be an open-by-default approach to data and learning generated through customer-funded activities, including where projects have been unsuccessful.

### **Key strategic themes**

We will use the pilot period to work with the sector to identify key themes and issues to be addressed in subsequent years of the competition.

We consulted on the key strategic themes for the competition. Consultation responses to the themes of the competition were broadly supportive, though noting that our approach should be balanced, and shouldn't narrow the focus of innovation to the expense of potential good ideas.

We received some suggestions that the principles would benefit from greater customer focus, including vulnerability, customer protection and using the sector for public good. We expect theme 4 and principle 4 to cover customer protection, including for those in vulnerable circumstances and public value (see section above). We have also added a specific reference to consumers in vulnerable circumstances to theme 5.



## Updated key strategic themes

Our key strategic themes are below.

1. Responding and adapting to climate change including how to meet the sector's ambition of net-zero emissions.
2. Restoring and improving the ecological status of our water environments, protecting current and future customers from the impacts of extreme weather and pollution.
3. Understanding long-term operational resilience and infrastructure risks to customers and the environment, finding solutions to mitigate these in sustainable and efficient ways.
4. Testing new ways of conducting core activities to deliver wider public value.
5. Exploring the opportunities associated with open data, stimulating innovation and collaboration, for example encouraging new business models and service offerings that benefit customers, including those in vulnerable circumstances.

## 4. Complementary activities

### Joint sector innovation strategy

We all have a role to play in creating the right conditions, capabilities and culture for innovation. And we want to see the sector taking a leading role. We called on the 17 water companies to come together and, with their stakeholders, develop a joint sector innovation strategy and welcome work done by UKWIR and WaterUK and the collaboration across the sector which has resulted in the publication of the [draft Strategy](#) in June.

The strategy seeks to guide innovation investment across the sector, and will provide insight for Ofwat in rolling out the £200m innovation fund. It also signals new opportunities for partners and suppliers of all sizes to innovate and collaborate more easily and efficiently across the whole sector.

### Key features of the draft strategy and interaction with the innovation fund

The joint sector innovation strategy will be important in the context of the innovation fund. We expect the final strategy will be published in September 2020 ahead of the launch of the competition, and it will play an important role in the interaction with the competition.

The strategy is a **call to action** for stakeholders to collaborate to co-create transformative innovation in the UK water sector. Current and future partners will be central to shaping, and collaborating to deliver, transformative innovation in the sector. There is also a pressing need to work with government and other decision makers to support innovation for growth and for good, directing innovation to society's most important problems, and shaping the application of new ideas and technologies in a way that benefits as many people as possible. While by itself, this strategy cannot achieve these things, it is a catalyst for change and provides the framework within which stakeholders can each take responsibility and work together to transform.

The sector strategy may point to areas of challenge and opportunity, beyond Ofwat's strategic themes for the innovation fund, and highlight alternative funding sources for these. For both the innovation in water challenge and the main competition, we would expect bids to reflect one or more of Ofwat's strategic innovation themes (see Section 3).

We said in our consultation that any proposals relating to funding for **enabling activities** would need to be fully justified through the strategy. The sector strategy recognises that some enabling infrastructure will be required to deliver against its principles, and it frames this as a **'Centre of Excellence'**. This would support shared access to skills, resources, knowledge, data, and support the sector in creating a collaborative innovation culture.

## **One-stop-shop**

We made reference to a 'one-stop-shop' as an enabling activity in previous publications around innovation. This could take many forms but at its core would provide innovators and water companies with easier access to non-binding regulatory advice on current rules and regulations, as they explore early stage innovation opportunities.

Whilst this proposal is still being scoped, it will likely take the form of an 'advice hub', which will publish useful information around innovation and the competitions, and provide informal advice to companies and innovators. We recognise there are different models available for carrying this out, either managed directly by us, or working with the Centre of Excellence when established.

It will also aim to work with other regulators in the water and wastewater sector to explore regulatory barriers to innovation in the sector, helping to inform the development of a future regulatory framework which continues to encourage and enable innovation.

We expect to launch the one-stop-shop on a trial basis in the fourth quarter of 2020-21 and will provide more detail in autumn 2020.

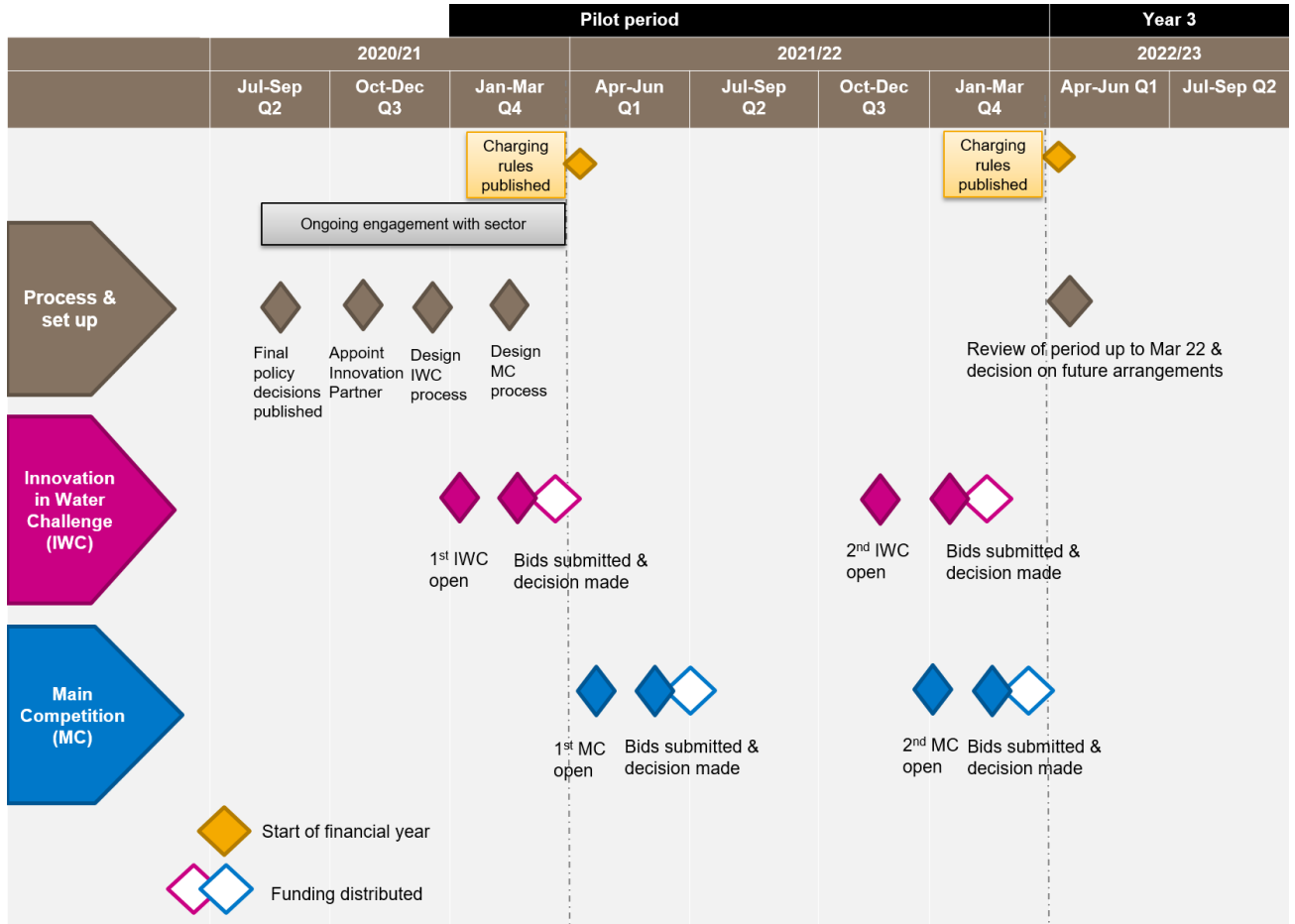
## 5. Next steps

As we set out in Section 3, we plan to launch the innovation in water challenge in January 2021. The focus of this challenge will be guided by our five strategic themes as well as the priorities identified through the joint innovation strategy. We expect companies and third parties to be working together in the coming months to consider projects for submission.

We anticipate our innovation fund partner to be in place in October 2020 and we will be working with them to finalise the formal application and assessment process. We will provide further guidance on the format of the innovation in water challenge later in the autumn.

Going forward we recognise that there will be opportunity for learning and evolution following each round of the competition. We are keen to continue to work closely with the sector on this. We will consider how best to do this and to gather insight, for example through a forum representing the sector and interested parties.

## Appendix 1 – Indicative timings of the competition



## Appendix 2 – Summary of consultation responses

We received more than 50 responses to our May-June 2020 consultation on the design and implementation of the innovation competition fund. We received responses from a range of stakeholders, including water companies, consultants, academics, customer representatives and the wider supply chain. Overall there was broad support from stakeholders on our consultation proposals. However some respondents sought greater clarity or raised concerns on specific areas which are summarised in the table below and which we respond to in Sections 2 and 3.

Theme	Summary of responses
Competition timing	<ul style="list-style-type: none"> <li>The majority of respondents felt the timetable proposal to run all three strands of the fund (main competition, innovation in water challenge, and the enabling activities) in year 1 was very ambitious, particularly in the context of Covid-19 and their own resourcing constraints.</li> </ul>
Partnerships and third party collaboration	<ul style="list-style-type: none"> <li>Broad support on the concept of collaboration and the benefits it can bring.</li> <li>Some challenges identified e.g. who owns the intellectual property rights (IPR) in collaborative projects and how will disputes be managed.</li> <li>Sharing of IPR seen as a disincentive for third parties from participating as they would normally expect to commercialise the output of their work. Some may require non-open by default IPR to participate.</li> <li>Strong support for leveraging funds from other sources and collaborating with partners to balance the financial risk between water companies, customers and third parties.</li> </ul>
Transparency and accountability	<ul style="list-style-type: none"> <li>Ring-fencing: Some companies disagreed with a separate bank account to hold the funds, e.g. because securitised companies are limited on the number of bank accounts they can operate.</li> <li>Open data: largely supportive of the proposal that data and learning should be open by default, except where there are concerns around data sensitivity and security.</li> <li>There should be transparency around the types of projects funded including the company contributions agreed.</li> </ul>
Flexibility in our policy decisions	<p>The innovation fund should be guided by the joint sector innovation strategy to ensure consistency and a degree of certainty for those applying. However, there should be flexibility in assessing bids to ensure different factors are considered, including:</p> <ul style="list-style-type: none"> <li>the technological readiness levels and costs already invested (including IPR);</li> <li>the balance of risk sharing between water companies, customers and third parties;</li> <li>the level and make-up of water company contributions (financial and non-financial);</li> <li>nature of projects and the potential benefits (including roll-out/new ideas); and</li> <li>the application process for the innovation in water challenge and main competition should be proportionate and scalable to allow for different sized projects.</li> </ul>

Ofwat (The Water Services Regulation Authority)  
is a non-ministerial government department.  
We regulate the water sector in England and Wales.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk)

August 2020

© Crown copyright 2020

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gov.uk](mailto:mailbox@ofwat.gov.uk).

